REVIEW OF THE EXPORT ENHANCEMENT PROGRAM ANNOUNCED BY THE U.S. DEPARTMENT OF AGRICULTURE

HEARINGS

BEFORE THE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS,
RESEARCH, AND FOREIGN AGRICULTURE

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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REVIEW OF THE EXPORT ENHANCEMENT PROGRAM ANNOUNCED BY THE U.S. DEPARTMENT OF AGRICULTURE

TUESDAY, OCTOBER 8, 1985

House of Representatives,
Subcommittee on Department Operations,
Research, and Foreign Agriculture,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:35 a.m., in room 1302, Longworth House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

Present: Representatives Penny, Roberts, Morrison, Gunderson, Evans of Iowa, and Combest.

Staff present: Phillip L. Fraas, counsel; Glenda L. Temple, clerk; Bernard Brenner, Howard Conley, Timothy J. Galvin, Diane Sligar, Eugene Moos, Anita R. Brown, and Gary R. Mitchell.

OPENING STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Bedell. The subcommittee will come to order.

The Subcommittee on Department Operations, Research, and Foreign Agriculture meets today to examine the operation of the Department of Agriculture's Export Enhancement Program. The $2 billion, 3-year export bonus program was launched this last spring amid a sharp slump in exports, and calls for new efforts to reverse this decline. After months of delays and missteps, the first sale under the program was announced on September 13.

USDA's own Export Bonus Advisory Committee, made up of producers and others in the grain trade, reportedly has called for the program to be broadened and restructured or abandoned altogether. In addition, there are reports that the targeted nature of the program has contributed to a loss of sales amongst some traditional customers because they have not been made eligible for bonus commodities.

Given the limited progress that has been made to date, it appears that the Department's original goal of disposing some 2 billion dollars' worth of commodities over 3 years is going to be very difficult to meet. This morning we will hear from representatives of the General Accounting Office, producer groups, and the grain trade. We had originally scheduled USDA and State Department officials to testify this afternoon but because the farm bill will be on the House floor again today, we will reschedule the administration later.

All witnesses have been advised to keep their oral presentations to 5 minutes or less. I ask for your complete cooperation in adhering to this request so that we can maximize the time available for questions.

Mr. Roberts.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. Thank you, Mr. Chairman.

First I want to thank you for calling this hearing today. I want to commend you. For some time this subcommittee, since I have had the privilege of serving on it, has been interested in the entire field of exports and trade policy but since your chairmanship, sir, we have certainly planted the flag, and I appreciate it and my farmers appreciate it.

We have been working on the 1985 farm bill for over 9 months. Much of the debate has centered around the steps that Congress and the U.S. Department of Agriculture can take to turn around the continuing slide of our export market share. Indeed, some of the debate has focused on sharply different methods of maintaining our export competitiveness. The administration has stressed the need for downward price support adjustments to get our foreign products more competitive, while others have advocated higher price supports and the subsidizing of grain down to world levels.

I and many others have advocated a recourse marketing loan that would remove the price umbrella that the U.S. nonrecourse loan rate has held over world grain production. The world knows that when the price of grain reaches a certain level; that is, that price that is below the CCC nonrecourse loan level, that the U.S. Department of Agriculture will obviously step in to remove that surplus from the marketplace. In my opinion, that makes little sense, and getting market-competitive immediately while protecting farm income through the target price would be the best policy in the long run.

I firmly believe it would cost less than the so-called Foley-Marlenee approach of gradually reducing the loan rate over a 5-year period until we get our price to world clearing levels. It appears to me that this approach will only allow our competitors 5 years to continue to steal export market shares. If we are going to prevent the erosion of U.S. agriculture exports while we get market-competitive, then we need an effective export subsidy program.

As you know, Mr. Chairman, the subcommittee during our deliberations on the export title of the farm bill mandated that the Secretary take steps through an export PIK Program, offsetting the value of the dollar, export subsidies by our competitors, and unfair trading practices of other nations. However, what the subcommittee had in mind is a program that works and works efficiently. Clearly the BICEP Program being operated by the Department is not filling that need.

Since the Department's creation of the export enhancement program several months ago, we have seen a limited number of export sales enhanced. It is time we took a look at the program to find out if the problem is the program concept or whether it is the USDA's implementation of the program. If it is the concept, we had better seek out other solutions. If it is regulatory in nature or something in regards to the implementation of it, then we had better find that out and get it corrected.

Again, Mr. Chairman, I commend you for calling this hearing. I look forward to hearing from our witnesses on what they see as the possible problem and solution to this great export dilemma that we face. The Washington Post perhaps said it best in an editorial last June 10—one of the few times I agree with the Washington Post—when they called the BICEP Program "an isometric exercise." If we keep the loan rates above world clearing levels and then force the Government to subsidize the price back down to world levels, clearly that is "an isometric exercise." Hopefully we can find out today how to flex the BICEP Program and somehow work out from under the mountain of grain that we are facing.

I thank you again, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Roberts.

Mr. Evans.

Mr. **Evans** of Iowa. I have no statement, Mr. Chairman.

Mr. **Bedell**. Mr. Combest.

Mr. **Combest**. No; thank you, Mr. Chairman.

Mr. **Bedell**. Our first panel this morning consists of Mr. Allan Mendelowitz, Associate Director, Trade, Energy, and Finance Group, National Security and International Affairs Division, GAO. He is accompanied by Mr. Phillip Thomas, Group Director, Trade, Energy, and Finance Group; and Mr. Stanton Rothouse, Project Manager, Trade, Energy, and Finance Group.

If you three would come forward, we would appreciate it. As I indicated earlier, we would appreciate it if you would try to hold your testimony to 5 minutes so that we can finish with all of our panels that we have this morning.

STATEMENT OF ALLAN I. MENDELOWITZ, ASSOCIATE DIRECTOR, TRADE, ENERGY, AND FINANCE GROUP, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY PHILLIP THOMAS, GROUP DIRECTOR, TRADE, ENERGY, AND FINANCE GROUP, AND STANTON ROTHOUSE, PROJECT MANAGER

Mr. **Mendelowitz**. Thank you, Mr. Chairman. With your permission, I will read an abbreviated statement and submit the full statement for the record.

Mr. **Bedell**. Your full statement will be entered in the record.

Mr. **Mendelowitz**. Thank you.

We are pleased to be here today to discuss with you our ongoing work on the agricultural Export Enhancement Program which was announced in May of this year. Our work is being conducted at your request, as well as the requests of Senators Grassley and Harkin.

The declining competitiveness of the United States in the world agricultural market and decreasing U.S. agricultural exports characterize the environment in which the current Export Enhancement Program was established. Under the Export Enhancement Program, up to 2 billion dollars' worth of surplus agricultural commodities owned by the Commodity Credit Corporation would be made available over a 3-year period as a bonus to U.S. exporters to expand U.S. sales of specified U.S. agricultural commodities in targeted markets.

The objectives of the program are to increase U.S. farm product exports and to encourage trading partners to begin serious negotiations on agricultural trade problems.

The four guidelines that the program operates under were established by the Economic Policy Council. Each initiative under the program should meet the tests of: One, additionality; two, key targeting considerations; three, cost-effectiveness; and, four, budget neutrality.

As of October 1, the CCC had issued announcements containing the terms and conditions of six initiatives targeting wheat and wheat flour to four countries. The initiatives represent total potential sales of 3.1 million metric tons of wheat and 650,000 metric tons of wheat flour. To date only the two initiatives for Egypt have resulted in actual sales.

Based on our preliminary work, we have the following observations about whether the program can achieve the goals and objectives and about the management of the program. The six initiatives under the program announced to date target four countries and two related commodities, wheat and wheat flour. Potential future activity is limited by current criteria.

The targeting aspect of the program is perhaps the primary cause for limiting the amount of activity. According to the targeting criterion, the subjects of the initiatives are to be competitors who are subsidizing their exports. To date, all the initiatives have been directed against the European Community.

However, not all markets where subsidizing competitors sell are likely to be targeted. This is because of the additional concern that competitors who do not subsidize their exports not be hurt by the program, and this of course limits the number of potential markets. Furthermore, the probability of targeting the Soviet Union, which purchased approximately one-third of the European Community's wheat exports last year, is remote because of foreign policy considerations. This is a market in which the Common Market essentially did not participate in 1980.

Under the targeting aspect of the program, furthermore, traditional U.S. commercial customers view the program or can view the program as discriminatory. Longstanding commercial customers for U.S. agricultural exports who are not given the opportunity to buy discounted commodities may react negatively and seek other sources of supply. Given the world surplus in major agricultural commodities, other suppliers are readily available.

The program initiatives announced thus far have involved only wheat and wheat flour. Although in principle the program includes all agricultural commodities, even those not contained in CCC stocks, the potential for using the program for other commodities appears limited.

According to Agriculture, additionality under the program is forecast to be limited due to the fungibility of grain and other agricultural commodities and to the likelihood that a large percentage of European Community exports displaced by the program will be diverted to other markets, at the expense of both nonsubsidizing competitors and U.S. commercial exports. Agriculture estimates a net 33-percent additionality for the major initiatives announced under the program thus far; that is, actual net exports that would not have been made without the program are estimated at one-third of the sales made under the program.

The relatively low estimate of additionality means that the effective subsidy under the program is very high. If it takes the equivalent of $200 million in CCC stocks to support a $1 billion sale, and actual additional sales are one-third of that $1 billion or $330 million, then the subsidy element for the net increase in exports is about 60 percent. Hence, if the Agriculture Department's estimate of additionality is correct, most additional sales under the program will consist of CCC bonus commodities, so the direct impacts on commercial markets and farm incomes are likely to be slight.

Additionality of exports in targeted markets may also be short lived, as reflected by the 1983 subsidized wheat flour sale to Egypt. In this case, when the subsidy lapsed the market share that had been captured as a result of the subsidy reverted to the European Community suppliers.

In the past the United States has had some success in using offsetting export subsidies to encourage negotiations and agreements restricting these practices, so there is a basis to expect that some success may come from this effort. However, the existing surplus stocks and the fungibility of agricultural commodities mean that subsidized exports squeezed out of one country's market by the program can be diverted to other markets. This may raise the cost to exporters of continuing to subsidize, but we do not know by how much and, given the limited scope of the program, we question whether these increased costs are enough to effect a major increase in willingness to negotiate.

Next, we have concerns that: One, cargo preference may present a problem for the program, given current legal decisions; and two, we have a question about the appearance of conflict of interest because of the fact that advisory panel committee meetings have been closed.

In the final analysis, the Export Enhancement Program represents a limited response to the declining competitiveness of the United States in the world agricultural market. Our preliminary review indicates that the likelihood of significantly increasing U.S. agricultural exports is minimal and the likelihood of encouraging a reduction in foreign export subsidies is also not very great.

This concludes my statement, and we will be happy to try to answer any questions you may have.

[The prepared statement of Mr. Mendelowitz follows:]

STATEMENT OF
UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C.

ALLAN I. MENDELOWITZ
ASSOCIATE DIRECTOR, NATIONAL SECURITY
AND INTERNATIONAL AFFAIRS DIVISION

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss with you our ongoing work on the agricultural Export Enhancement Program which was announced in May of this year. Our work is being conducted at your request as well as the requests of Senator Grassley, Chairman of the Senate Judiciary Subcommittee on Administrative Practice and Procedure, and Senator Harkin, a member of the Senate Committee on Agriculture, Nutrition, and Forestry.

As you know, our work on agricultural export subsidies goes back to the early 1970s, when we issued a series of reports on the Department of Agriculture's management of the Wheat Export Subsidy Program. Those reports identified several weaknesses and abuses in the subsidy program, especially the payment of excessive subsidies to U.S. exporters. The attachment to this statement lists a number of our reports related to agricultural trade.

The declining competitiveness of the United States in the world agricultural market and decreasing U.S. agricultural exports characterize the environment in which the current Export Enhancement Program was established. U.S. agricultural exports have declined substantially from the 1981 record level of 162 million tons valued at $44 billion. At the time the Export Enhancement Program was announced, the U.S. government projected that 1985 exports would fall to 137 million tons valued at $33.5 billion. In 1980 the United States supplied nearly 60 percent of the world's grain import needs whereas in 1985 it was projected the United States would supply less than 45 percent.

DESCRIPTION OF THE EXPORT ENHANCEMENT PROGRAM

The establishment of the Export Enhancement Program grew out of discussions between the former Director of the Office of Management and Budget and the Senate leadership in May of this year. As a result of the discussions, the Secretary of Agriculture announced on May 15 that up to $2 billion worth of surplus agricultural commodities owned by the Commodity Credit Corporation (CCC) would be made available over a 3-year period as a bonus to U.S. exporters to expand sales of specified U.S. agricultural commodities in targeted markets. In practice, this bonus is a subsidy-in-kind which enables exporters to lower the price of their commodities to be competitive with subsidized foreign agricultural exports.

The objectives of the program are to increase U.S. farm product exports and to encourage trading partners to begin serious negotiations on agricultural trade problems.

According to guidelines established by the interagency Economic Policy Council, each initiative under the program (i.e., announcement of commodity and market to be targeted) is to meet the following criteria: (1) additionality, i.e., sales are to increase U.S. agricultural exports above those that would have occurred in the absence of the program, (2) targeting, i.e., sales are to be targeted at market opportunities to displace competitors who are subsidizing their exports, (3) cost effectiveness, i.e., sales are to result in a net plus to the overall economy, (4) budget neutrality, i.e., sales are not to increase budget outlays above those that would have accrued in the absence of the program.

As of October 1, the CCC had issued announcements containing the terms and conditions of six initiatives targeting wheat or wheat flour, one for Algeria, two for Egypt, two for the Yemen Arab Republic, and one for Morocco. The initiatives represent total potential sales of 3.1 million metric tons of wheat and 650 thousand metric tons of wheat flour. To date only the two initiatives for Egypt have resulted in sales--500 thousand metric tons of wheat and 175 thousand metric tons of wheat flour valued at about $87 million, which includes about $23 million in bonus commodities. The announcements contained information concerning the operating procedures of the program, which may vary from initiative to initiative. Under each procedure, however, interested exporters must first qualify by meeting a variety of requirements, including evidence of experience in exporting agricultural commodities.

GAO OBSERVATIONS

Our observations are an interim assessment based on our work to date, which has included a review of pertinent documents and interviews with officials of the Departments of Agriculture and State, the Office of the U.S. Trade Representative, the Office of Management and Budget, U.S. grain exporters, and trade associations.

Based on our preliminary work, we have the following observations about whether the program can achieve its goals and objectives and about the management of the program.

--The six initiatives under the Export Enhancement Program announced to date target four countries and two related commodities--wheat and wheat flour. Potential future activity is limited by current criteria. The targeting aspect of the program is perhaps the primary cause for limiting the amount of activity. According to the targeting criterion, the subjects of the initiatives are to be competitors who are subsidizing their exports. To date, all the initiatives have been directed against the European Community. However, not all markets where subsidizing competitors sell are likely to be targeted. This is because of the additional concern that competitors who do not subsidize their exports not be hurt by the program. This limits the number of potential markets. Furthermore, the probability of targeting the Soviet Union, which purchased approximately one third of the European Community's wheat exports last year, is remote because of foreign policy considerations. This is a market in which the Community essentially did not participate in 1980.

--The targeting aspect of the program could cause traditional U.S. commercial customers to view the program as discriminatory. Long-standing commercial customers for U.S. agricultural exports who are not given the opportunity to buy discounted commodities may react negatively and seek other sources of supply. Given the world surplus in major agricultural commodities, other suppliers are readily available.

--The program initiatives announced thus far have involved only wheat and wheat flour. Although in principle the program includes all agricultural commodities, even those not contained in CCC stocks, the potential for using the program for other commodities appears limited. According to recent government assessments, there will be little opportunity for broader use of the program under current targeting criteria. Furthermore, there are complexities associated with targeting a non-CCC commodity and providing a bonus with commodities that are in CCC stocks.

--According to Agriculture, additionality under the program is forecast to be limited due to the fungibility of grain and other agricultural commodities and to the likelihood that a large percentage of European Community exports displaced by the program will be diverted to other markets, at the expense of both non-subsidizing competitor and U.S. commercial exports. Agriculture estimates a net 33 percent additionality for the major initiatives announced thus far; that is, actual net exports that would not have been made without the program are estimated at one third of the sales made under the program. The relatively low estimate of additionality means that the effective subsidy under the program is very high. If it takes the equivalent of $200 million in CCC stocks to support a $1 billion sale, and actual additional sales are only about $330 million, then the subsidy element for the net increase in exports is about 60 percent. Hence, if the Agriculture Department's estimate of additionality is correct, most additional sales under the program will consist of CCC bonus commodities, so the direct impacts on commercial markets and farm incomes are likely to be slight.

--Additionality of exports in targeted markets may be short-lived, as reflected by the 1983 subsidized wheat flour sale to Egypt. In this case, when the subsidy lapsed, the market share that had been captured as a result of the subsidy reverted to European Community suppliers.

--In the past, the United States has had some success in using offsetting export subsidies to encourage agreements that restrict these practices, at least in the area of concessionary export financing. Therefore, there is a basis to expect that, in the agricultural sector, counter-subsidies may be of some use in bringing subsidizing competitors to the negotiating table. However, the existing surplus stocks and the fungibility of agricultural commodities mean that subsidized exports squeezed out of one country's market by the program can be diverted to other markets. Foreign actions to offset U.S. export subsidies or to find new markets will raise the cost of competitor export subsidies. We do not know how much their costs will increase, but given the limited scope of the program we question whether these increased costs will be sufficient to bring about the desired negotiations.

--Agriculture views the program as a commercial one not subject to cargo preference law. However, a recent district court decision contained language indicating that cargo preference requirements would not be limited to foreign aid cargoes but would also apply to other types of surplus commodities procured through a federal government program. If this broad reading of the cargo preference provisions is upheld on appeal, the Export Enhancement Program could be affected. However, even under the narrower view, the program could be challenged as a "concessional" program subject to cargo preference requirements if the subsidies provided are deemed to result in concessionary prices. Resolution of this issue is important since cargo preference requirements would increase program costs and undermine its objectives.

--The Export Enhancement Program Advisory Committee consists of eight members who were recommended to be on the Committee by various trade associations. Its first meeting was not open to the public because the Secretary of Agriculture determined that information discussed would be market sensitive. Given the fact that potential program beneficiaries participate in these meetings, closed sessions create the appearance of potential conflict of interest.

In the final analysis, the Export Enhancement Program represents a limited response to the declining competitiveness of the United States in the world agricultural market. Our preliminary review indicates that the likelihood of significantly increasing U.S. agricultural exports or encouraging a reduction in foreign export subsidies is minimal.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you may have at this time.

(Attachment follows:)

ATTACHMENT

GAO REPORTS ON AGRICULTURAL TRADE

July 9, 1973, "Russian Wheat Sales and Weaknesses in Agriculture's Management of Wheat Export Subsidy Program," B-176943

February 12, 1974, "Exporters' Profits on Sales of U.S. Wheat to Russia," B-176943

April 29, 1974, "U.S. Actions Needed to Cope with Commodity Shortages," B-114824

April 11, 1975, "The Agricultural Attache Role Overseas: What He Does and How He Can be More Effective for the United States," B-133160

February 12, 1976, "Assessment of the National Grain Inspection Systems," RED-76-71

March 3, 1976, "Agriculture's Implementation of GAO's Wheat Export Subsidy Recommendations and Related Matters," ID-76-39

May 28, 1976, "Grain Marketing Systems in Argentina, Australia, Canada, and the European Community; Soybean Marketing System in Brazil," ID-76-61

May 2, 1977, "Issues Surrounding the Management of Agricultural Exports," Vol. I and II, ID-76-87

October 26, 1979, "Stronger Emphasis on Market Development Needed in Agriculture's Export Credit Sales Program," ID-80-01

July 27, 1981, "Lessons To Be Learned From Offsetting the Impact of the Soviet Grain Sales Suspension," CED-81-110

June 15, 1982, "Market Structure and Pricing Efficiency of U.S. Grain Export System," GAO/CED-82-61; and Supplement, "An Economic Analysis of the Pricing Efficiency and Market Organization of the U.S. Grain Export System," GAO/CED-82-61S

April 9, 1985, "Controls Over Export Reporting and Futures Trading Help Ensure Fairness, Integrity, and Pricing Efficiency in the U.S. Grain Marketing System," GAO/RCED-85-20

June 18, 1985, "Transportation of Public Law 480 Commodities--Efforts Needed to Eliminate Unnecessary Costs," GAO/NSIAD-85-74

September 13, 1985, "Compendium of GAO Reports Pertaining to Public Law 480 from July 1973 through August 1985," GAO/NSIAD-85-96

September 23, 1985, "Current Issues in U.S. Participation in the Multilateral Trading System," Chapter 2, "GATT Discipline Weak for Agricultural Trade," GAO/NSIAD-85-118

Mr. BEDELL. Thank you very much, and we appreciate your willingness to abbreviate your statement, in view of our time constraints.

Mr. Roberts.

Mr. ROBERTS. Yes, thank you, Mr. Chairman.

On pages 2 and 3 of your prepared statement, you mention the four criteria that are utilized by the Department. I'm talking about the budget neutrality, cost-effectiveness, targeting, and additionality. During consideration of the farm bill, this subcommittee envisioned an export PIK Program that was much broader than BICEP. We were involved in a total exercise program. In your opinion, if the USDA were to implement an export PIK Program on a broader scale, would it work?

Mr. MENDELOWITZ. I think that, given the current conditions in the world agricultural market, the only major way that the United States can increase its exports of agricultural commodities is if we displace other suppliers. It is possible through subsidies—for example, general subsidies—to increase our exports and displace other suppliers.

The key question is, Are the benefits derived from increased sales achieved by displacing nonsubsidizing exporters such as the Argentinians or the Australians—displacement which would take place in a broader program—are those benefits worth the costs that go along with displacing the sales of countries which have essentially sided with us in efforts to gain greater discipline over what we, the United States, consider to be undesirable practices in trading; namely, questions of export subsidies, market access, and so on?

So the answer is "Yes," I think it would be possible to increase our exports but it would not be an unalloyed good because there would be costs that would go along with that.

Mr. ROBERTS. We had quite a discussion in the subcommittee, the full committee, and on the floor of the House, and are still having that, in regards to something called budget neutrality. I don't think there is anybody in this town that is neutral on the budget; don't misunderstand me.

Could you explain budget neutrality, in terms of your criteria, a little more for this subcommittee? The reason I am asking is that there are those of us who will sell our souls, I think, to get this grain moving in any way possible. I mentioned an export PIK; I mentioned a lowering of the program supports; I mentioned a marketing loan. I am to the point that if we shipped it somewhere, I would just as soon sink the ship—if it were a foreign ship, for my friend over there who is a staffer of the Merchant Marine Committee.

By the way, Mr. Chairman, this is the first time I have noticed we have had the Merchant Marine staffers here, which means we are doing something right, or at least they are paying attention.

After that wandering comment, would you like to go into budget neutrality?

Mr. MENDELOWITZ. Certainly, Mr. Congressman. In essence, the budget neutrality requirement—and this is one of the criteria established by the Economic Policy Council, it's not one of GAO's criteria, of course—states that any initiative under the program should not increase budget obligations above what they would be in the absence of the program, so that, given the way the budget is assessed, what this essentially means is that if the program results in either no change ultimately in the total CCC stocks or at least a decline in CCC stocks, there are savings associated from reduced purchases in future years and savings on storing the grain, so that the benefit to the budget is essentially a reduction in budget obligations.

I have to say if you look at the program from an economic perspective rather than a budgetary perspective, as long as we consider that the stocks currently held by the CCC are not going to be released onto the world market, they in effect have a zero value to us in the sense that, if we are not going to sell them, we can't recoup anything from them, so in essence the extent to which existing stocks are used in a way that does not produce increases in stock purchases down the road, in one sense, in an economic sense, the program has very little cost.

Mr. ROBERTS. I mentioned the problem of cargo preference, and I am personally very involved in trying to see that issue resolved in behalf of both agriculture and the merchant marine. You made a very pertinent comment to the cost of cargo preference as it applied to any export initiative. Do you see how that can be resolved in any way?

Mr. MENDELOWITZ. You're asking a difficult question because the answer is not an efficiency question; the answer is really an equity question. What we have are important interest groups whose livelihood and importance to the Nation are at stake—on the one hand the farm community, on the other hand the maritime interests. What the Congress has always done is to find some way of balancing the interests of both the competing interests.

That specific issue is addressed under title 1 of the Public Law 480 Program, in which the added cost of the cargo preference is borne by the U.S. Government, so there are ways of both providing for these exports and meeting maritime interests. I would not want to give the impression, though, that we are recommending some additional subsidy as part of this program—subsidy to the maritime interests—in order to get it.

Mr. ROBERTS. It is my understanding that one of the proponents of cargo preference may offer on the floor yet, in consideration of the farm bill, a unanimous consent request that the Secretary of Agriculture be mandated to spend the $526 million involved in the blended credit program, one of our other export initiatives, and that then this money, if it were shipped with the cargo preference rule, that both farmers and the maritime folks would be benefited. Those sales are lost. I mean, those sales are gone.

Mr. MENDELOWITZ. That's right.

Mr. ROBERTS. In addition, we had in the budget or in the subcommittee bill, with the direction of the chairman, that we mandate that the Secretary use the blended credit program. When it became obvious that we had to cut $11.8 billion out of our current bill below the level of last year, something I didn't like to do or what to do and did not vote for, nevertheless we had to make it discretionary with the Secretary in order to fit it under budget.

Now those sales are lost, and I would submit to you that half of nothing is still nothing. While the cargo preference people got their issue and their court case, no sailor was employed; no shipments were made.

I am at a loss to figure out how we can resolve this issue without additional money or a line item appropriation, and perhaps take it out of the Department of Transportation, which is what I would prefer to do. Do you have any comment on that?

Mr. MENDELOWITZ. My only observation is that we all know that shipping costs on U.S.-flag vessels are considerably higher than shipping costs on vessels of other countries. In order for commodities to be shipped on U.S. bottoms, someone will have to bear the added cost. Who bears it and how it is borne is obviously one of the important decisions that the Congress has to make.

I think you have confronted the issue quite directly. You recognize that there is an added cost. You recognize that it has to be borne if we are going to undertake shipment on U.S. bottoms, and you have addressed it directly by recognizing the need for it in a line item in the budget.

Mr. ROBERTS. Well, we confronted it several days ago and the bear ate us alive, that is what happened.

I have no further questions, Mr. Chairman. Thank you, and I apologize for going over my time.

Mr. BEDELL. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I would like to focus a bit on the decisionmaking process in connection with these efforts. I personally find it a bit peculiar that all of the successful efforts and the announced ones, some of which I guess have not been successful—have been geographically focused on the northern coast of Africa and the Middle East, to the exclusion of the rest of the world. Is that because this is the only part of the world in which the administration considers that there are opportunities, or is this influenced by considerations other than where the potential for expanding exports might be?

Mr. MENDELOWITZ. Mr. Evans, one of the important criteria guiding the operation of this program is the targeting criterion, by which the initiatives are designed to displace the exports of subsidizing competitors. A primary subsidizing competitor is the European Community, and the primary market where the European Community sells its commodities—wheat, wheat flour—is in the Mediterranean region—north Africa and the Middle East countries—so that the program initiatives have concentrated in this geographical area because that's where the European Community has its major markets, and that's where we have made a decision to go head to head against their subsidized exports.

Mr. EVANS of Iowa. Can you give me any reason, then, why we haven't moved on down the West Coast of Africa and looked at the former French colonies, which have virtually been a monopoly market for the French ever since they achieved their independence? There would be no displacement of Argentine or Australian wheat and as far as I can see there has not, at least to the public's observation, been any effort to sell. What is the reason for ignoring some of these other areas that would seem to fit all of the criteria perfectly?

Mr. **Mendelowitz**. Mr. Evans, we are still very early on in the work that we are undertaking in response to the committee's request.

Mr. **Evans** of Iowa. I'm sorry. I didn't get that.

Mr. **Mendelowitz**. We are still in the very early stages of the work we are undertaking in response to the committee's request and we really don't have that answer for you at this time. There have been a fairly large number of possible countries and products or commodities that have been evaluated by the Agriculture Department and by the interagency committee reviewing the program, but I don't believe that I have at this moment information on why, for example, Francophone Africa hasn't been targeted.

Mr. **Evans** of Iowa. Do you have any feeling for the number of proposals that have been received by the Department for consideration, and what fraction of these have been accepted or rejected—for serious consideration?

Mr. **Mendelowitz**. My understanding is that there were several score proposals that have been evaluated. I think Mr. Thomas has some additional information on that.

Mr. **Thomas**. I think about 30-plus proposals, principally coming from the private grain trade, have been reviewed by Agriculture. There have been, I believe, a couple in west Africa but the Department of Agriculture has not made any final decision on those, and they have asked us not to comment specifically on countries in the absence of a final decision.

Mr. **Evans** of Iowa. To pursue that further, you say there have been a number of proposals received from private grain companies or traders. Have any of those proposals that have been announced or accepted originated in that sector, or have they originated from other sources?

Mr. **Thomas**. When you say—sector—you mean from the grain trade? Yes.

Mr. **Evans** of Iowa. So, some of the ones that have been approved did originate in the grain trade?

Mr. **Thomas**. Yes.

Mr. **Evans** of Iowa. Can you enlighten us as to whether those were all originated by the major grain companies and traditional grain trade, as opposed to perhaps others?

Mr. **Thomas**. Essentially the major grain companies have been the principal applicants in this program and the proposers.

Mr. **Evans** of Iowa. Have there been applications from others?

Mr. **Thomas**. Yes, sir.

Mr. **Evans** of Iowa. Have any of the others been approved?

Mr. **Thomas**. Not to my knowledge at this time. They have applied. They are eligible to participate but they have not made sales.

Mr. **Evans** of Iowa. Can you comment at all about the effect of—well, we have used the word "additionality" and so I will coin a new word "continuality." These things seem to be a one-shot as opposed to a continuing arrangement. Is that by design or is that a policy goal?

Mr. **Mendelowitz**. No; I think that the continuality of this program is somewhat better than the Egyptian wheat flour case I cited in the statement. First of all, the program is designed to run over a 3-year period. Second, the initiatives that have been announced, have been announced to cover a fairly long period of time. So, for example, a wheat offering to, say, a country like Egypt may be open for a period of 12 months. So I think, given the 3-year term and given the fact that the announcements cover a fairly long period of time, there are somewhat greater prospects of continuality than existed under, say, the wheat flour program, but it still represents a problem.

Mr. Evans of Iowa. It would seem to me that continuality is an extremely important principle if this program is to have any real success.

I see my time has expired, and I thank you, Mr. Chairman.

Mr. Bedell. Mr. Combest.

Mr. Combest. Yes; under this program where we provide a bonus for a purchase, in order to make up for some difference in currency values, have you looked at the question of whether or not this actually costs us in sales? For example, if a country wants 2 million metric tons, if that's their demand or their desire and in reality they would only buy 1.75, and the difference made up, what are your feelings in that regard?

Mr. Mendelowitz. This is the heart of the judgment call on what the additionality of the program consists of. If a country was going to buy 1 million tons and we sell 1 million tons with the bonus, then our commercial exports decline. If we are going to sell 1 million tons and we use 200,000 tons to support it, and we sell 1.2, then we haven't increased our commercial sales.

At this point, all we have on additionality are the judgments made by the Department of Agriculture as to what they think the true additionality is; namely, how much real increase in exports takes place. As I indicated in the prepared statement, the existing initiatives that have already been announced have an estimated additionality of about 33 percent, which means that one-third of the sales under the program represent actual net new increases in exports, or will represent actual new increases in net exports. One of the——

Mr. Combest. That would have been there anyway?

Mr. Mendelowitz. That would not have——

Mr. Combest. That would not have.

Mr. Mendelowitz. That would not have been there. That's right, but we have not been able to ascertain the support and the basis for that additionality judgment call. Additionality is a very, very difficult item to estimate because you don't have a direct observation. We can move into one market with an Export Enhancement Program sale. The EEC may be squeezed out of that market. They may then take their—for example, flour may be squeezed out of a north African market. The EEC may not be able to sell flour someplace else but they may be able to sell the wheat that would have gone into the flour that was displaced. We would have to, after the fact, make judgments about what the grain market looked at, and it's fairly hard to do, so that in essence they believe the program does represent new net additions to exports, but it's a judgment call.

Mr. Combest. You in the GAO looked at the so-called marketing loan concept. Have you taken a look at that as far as how it may compare or how it might be either detrimental or beneficial above the Export PIK Program?

Mr. **Mendelowitz**. No; we have not looked at that.

Mr. **Combest**. Thank you.

Thank you, Mr. Chairman.

Mr. **Bedell**. Mr. Morrison.

Mr. **Morrison**. Mr. Mendelowitz, I noticed that in one of your statements on page 4, "The targeting aspect of the program could cause traditional U.S. commercial customers to view the program as discriminatory." Might you be referring to the Soviet Union and the fact that they have fallen behind on fulfilling their commitments under the long-term grain agreement, in that category?

Mr. **Mendelowitz**. We did not have the Soviet example in mind when we made that observation because I think it applies to a number of markets where we have sold our products at commercial terms, and we certainly don't have any direct evidence that we have uncovered that would place the Soviet Union in that category, but it's certainly something that one can speculate about.

Mr. **Morrison**. Well, while you're speculating, would you include the possibility that the State Department is having something to say about where these offers are made?

Mr. **Mendelowitz**. The final decision on where the offers are made is taken by an interagency review process in which the State Department participates. It's one of the participating agencies, so that when a country is targeted for an initiative, you can be sure that the State Department has participated in that decision.

Mr. **Morrison**. Is it fair to assume that the more agencies you have reaching this decision, the more we dilute the effectiveness of an Export Enhancement Program?

Mr. **Mendelowitz**. That's a very difficult question to answer. I think the best answer I can give you is that whenever an interagency committee makes a decision on a program, a large number of interests are weighed. Certainly when the Export Enhancement Program's operation is reviewed by an interagency committee, the broad range of U.S. interests are considered as well as the specific program objectives.

Mr. **Morrison**. But isn't it fair to assume that when that broad range of interests is all there represented at the table, that you might march away from our goal, which is in effect to empty some grain bins around the United States?

Mr. **Mendelowitz**. I think that's certainly possible. I know that when we've talked about this amongst ourselves, our judgment is that, given the current state of great power relations, we consider it highly unlikely that the Soviet Union would be targeted, and so those are foreign policy considerations that would prevent, say, the targeting of this relatively large market.

Mr. **Morrison**. I know it's not your role to speculate but we do a lot of that around here and we would like to have your help. In your investigation of the programs which you have reviewed and reported on, do you come away with some feelings that there is some way to do it better? We're looking at a variety of options, for instance, now in the farm bill that's still in front of us. I think any observations you have along these lines would be appreciated by the subcommittee.

Mr. **Mendelowitz**. I really don't want to demur on the question because we really wish to be as helpful as we can, but to be honest we are at such an early stage of our work, we haven't even come to grips with the design of what might be better, but we do have a couple of considerations that we know are very important in the design of any program in this area. One of them is the fact that the reality of the world market is that there are tremendous surpluses of agricultural commodities on the market today, and nothing we do is going to alter that.

Second, there is probably a low-price elasticity of demand for agricultural commodities, so that anything that lowers the price on the world market will probably result in a relatively small increase in demand worldwide for the commodities, so that price effect probably on the demand side isn't going to have a major impact.

Third, any program we have domestically to deal with agriculture that runs counter to the reality of what is happening in the world marketplace is going to make any export enhancement program very difficult, because it will have to overcome domestic agricultural policy provisions that run counter to the reality of the world marketplace.

And I think, lastly, if we have a domestic policy, for example, that involves restriction of U.S. production and U.S. setting of floor prices on the world market, we are not going to see much improvement because the rest of the world's suppliers, unless they agree to go along with comparable programs, will just fill any gap left by the U.S. cutback in production.

Mr. **Morrison**. Thank you. That is helpful.

Thank you, Mr. Chairman.

Mr. **Bedell**. Mr. Gunderson.

Mr. **Gunderson**. Just one question, very briefly, due to time: On page 3 of your statement you indicate that one of the guidelines established by the interagency Economic Policy Council is budget neutrality. Sales are not to increase budget outlays above those. Doesn't this become just a question of accounting? I mean, which way you write the numbers determines whether there is or is not budget exposure, real cost?

Mr. **Mendelowitz**. There are certainly two ways of looking at this issue. One is in a strict budgeting sense, and in that case you consider whether there is an actual reduction in CCC stocks, whether there is going to be any increase in CCC stocks in the future, what the acquisition price would be, what the carrying costs are, and you come up with the budget figure, so that, generally speaking, I think budget neutrality is fairly easy to achieve in a strict accounting sense.

If you look at the issue of neutrality from the perspective of economic efficiency, if you take for granted that these stocks are not going to be dumped on the market by the Government, then their value to the Government is zero in the sense they cannot generate any revenue for the Government. In fact, they represent a net cost because there are annual carrying costs associated with the storage of the products, so that the economic cost of this program is in fact quite low.

Mr. **Gunderson**. OK. Thank you, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Gunderson.

Mr. Mendelowitz, suppose you were a car dealer and you bought more Fords than anybody else in the Ford Motor Co., and the Ford Motor Co. said, "We are going to continue to not lower our price to you at all, but we are going to sell to others who haven't been buying so much from us at a lower price than we sell to you." How would you feel?

Mr. **Mendelowitz**. Well, I would feel quite upset because that would represent a departure from past practices of the automobile industry. The industry characteristically has always, in effect, given discounts to volume purchasers, and the more you buy, the greater your discount is.

Mr. **Bedell**. Is that any different from what this proposal is doing as far as some of our largest customers are concerned?

Mr. **Mendelowitz**. No; I think that, as we indicated in the statement, we consider the reaction of traditional commercial customers who have not been targeted by the program as one of the problem areas. We think it's quite possible that they will react with dismay and, given the current surpluses on the world market, they may look for and find alternative suppliers.

Mr. **Bedell**. So that this could actually decrease our sales rather than increase them. At least there is that possibility. Is that correct?

Mr. **Mendelowitz**. Well, I think that that's a possibility but, again, like additionality it's a very hard thing to measure.

Mr. **Bedell**. Who is on the Economic Policy Council?

Mr. **Mendelowitz**. The Economic Policy Council consists, at the highest level, of the Secretaries of State, Labor, Commerce, Treasury, and Agriculture, the Chairman of the CEA, the Director of OMB, and the U.S. Trade Representative.

Mr. **Bedell**. Are they involved in decisions in regard to individual offers of this export bonus program, or only in setting the general guidelines?

Mr. **Mendelowitz**. They become involved in two ways. The first, as you indicated, is that the Economic Policy Council sets the broad criteria under which the program operates. Second, the actual interagency review process of the individual initiatives takes place at a much lower level, at a working group which is a working group of the Trade Policy Review Group.

If the working group reaches consensus on whether to proceed or not to proceed with an initiative, it ends there. If they are unable to reach agreement, the proposed initiative goes to the next higher level, to the Trade Policy Review Group, which considers it.

If the Trade Policy Review Group reaches a consensus on how to respond to the initiative, which is to approve it or to reject it, it ends there. But if in fact the Trade Policy Review Group is not able to reach that decision, then an individual initiative could be passed up to the Economic Policy Council for final disposition.

Mr. **Bedell**. It sounds to me like there's a lot of roadblocks to getting something approved. Do I misunderstand what you said?

Mr. **Mendelowitz**. No; I don't mean to imply that there are roadblocks. What I'm saying is that if decisions, either positive or negative, with respect to proposed initiatives are fairly easy to make, the process can be handled fairly expeditiously. If there are strong disagreements over whether to proceed or not proceed with a particular initiative, there is a higher level interagency review process that goes as high as the Economic Policy Council to deal with those disagreements.

Mr. **BEDELL**. On the Export Enhancement Program Advisory Committee, they are meeting tomorrow and apparently those are closed meetings, without anyone being permitted to attend. Is that correct?

Mr. **MENDELOWITZ**. That is correct. We have reviewed the issue of the closed meetings and, on the one hand, it is our belief that the closing of the meetings meets the letter of the law. It is within the legal prerogative of the——

Mr. **BEDELL**. I couldn't hear.

Mr. **MENDELOWITZ**. The closing of the meetings is within the legal prerogative of the Secretary of Agriculture. However, we do have a concern, because the members of the committee are also potential beneficiaries under the program, that the fact that the meeting is closed does provide the appearance of potential conflict of interest.

Mr. **BEDELL**. Have they been asked why the meetings are closed? What answer did they give you?

Mr. **MENDELOWITZ**. Yes; under the legal requirements that must be met to close a meeting, the Secretary has determined that the meetings, if open, would frustrate the objectives of the program.

Mr. **BEDELL**. In what way?

Mr. **THOMAS**. We have asked Under Secretary Amstutz, on occasion, and he referred to the term "market sensitivity" without elaborating. We pressed on that, and we really haven't got a satisfactory response.

Mr. **BEDELL**. As it is now, certain individuals would have prior knowledge of what was anticipated on items in which they would have an opportunity to try to get sales. Is that not correct?

Mr. **MENDELOWITZ**. That's a possibility but, given the fact that the initiatives are all publicly announced, widely distributed, that they cover a long period of time, it's unclear whether and to what extent such an advantage might exist. We just don't know.

Mr. **BEDELL**. Thank you very much. Mr. Roberts has another question, I think.

Mr. **ROBERTS**. Yes, Mr. Chairman. I will yield to my colleague from Iowa because I know he wanted some additional time, and then I might come back to the question I have if I could, please, sir.

Mr. **EVANS** of Iowa. Thank you.

You mentioned nonsubsidizing nations and the desire not to harm them, and I think you specifically mentioned Argentina and Australia. I suppose one could question whether they are nonsubsidizing nations or not but I do recognize the point.

One thing, I guess I don't see that the effect on them would be any less if we went one of the alternate routes, such as a marketing loan, and thereby reduced our effective price into the world markets, or if we got there by reducing our loan rates over an extended period of time. I guess I fail to see any way in which we cannot adversely affect those nations. Would you disagree with that?

Mr. **MENDELOWITZ**. I think that clearly, if we were to reduce our loan rates and the prices of commodities on the world market declined, then any country engaged in the agricultural trade would be adversely affected, to the extent that one would expect production to decline and exports to decline in response to the price signal.

Where the distinction comes in is that we have worked very vigorously over the years to try to discourage subsidization of exports, including agricultural exports, an area where the GATT discipline has been the weakest because of the large number of exemptions and waivers for agricultural trade. I think that while ultimately over a period of years the economic effect might be equivalent, I would say that the trade effect would not be equivalent.

Mr. Evans of Iowa. Moving to the subject of targeting, if I may again for just a moment, would you agree with me that a marketing loan approach or some other more gradual and orderly approach to getting our loan rates down is very much similar to removing the targeting goal, in that the Soviet Union is certainly going to benefit from that kind of a program? Is there a distinction there that I don't see?

Mr. Mendelowitz. The difference between a program that lowers the loan rate over a period of years and a program that is a general export subsidy is that, while over a period of time the economic effect on world markets might be equivalent, in the United States lower loan rates would likely give rise to lower production levels, so that total supply in the world market would be lower. Lower market prices on the world market should lower production worldwide and bring the market into somewhat greater balance.

Second, in terms of our ability to bring greater discipline to agricultural trades—to reduce subsidies of competitor countries, to reduce exemptions that provide limits on market access—our long-run interests in the world agricultural trade market would be better served by a program that brought prices into line with world prices directly rather than through subsidies.

Mr. Evans of Iowa. Thank you.

Mr. Roberts.

Mr. Roberts. I want to thank the three witnesses. I have to apologize in advance of this question. I have a cold, we've been going through a 9-month fight on the farm bill, my farmers are extremely unhappy and my ranchers are upset, and so I apologize in advance.

I don't understand why we always have to have an acronym in this town for an export program. It's called BICEP, and the appearance of that is that we're going to flex our muscles and get this grain moving. We are going to provide an incentive, a catalyst, if you will, to get us back to better times and at least perhaps hold onto our market shares and hopefully regain them.

I think it's a torn muscle. I think the ligament is damaged. I think the tendon is damaged. I think the whole arm has perhaps been put together in the wrong fashion. We're on injured reserve. I don't think we'll even play in this season. You tell us that we have, what, now, an Export Advisory Council, a Trade Policy Development Group, and perhaps if we can't agree, bumping those decisions up, those very timely decisions, up to something called an Economic Council? Is that correct? We've got, what, three outfits that we have to go through here?

Mr. **MENDELOWITZ**. Well, I would like to mention again that, as you know, we work for the Congress. We don't represent the executive branch——

Mr. **ROBERTS**. I understand that. I'm just beating up on the——

Mr. **MENDELOWITZ** [continuing]. And so I'm happy that we don't have to defend the program, but there is an advisory group which advises the Secretary of Agriculture on how to structure the program.

Mr. **ROBERTS**. Yes; I'm aware of that.

Mr. **MENDELOWITZ**. The actual interagency decisionmaking consists of three levels: A working group which deals with proposed initiatives, and then two groups above it to which proposals can be sent if agreement cannot be reached at the lower level.

Mr. **ROBERTS**. How many people are we talking about here—15, 115? How many people are we talking about over there horsing around with this program?

Mr. **MENDELOWITZ**. Oh, you know, if the working group has maybe seven or eight agencies, there may be seven or eight people working on the working group, and replicated at different levels.

Mr. **ROBERTS**. So, there are probably 50 or 75 people over there, pushing pencils, trying to figure out who we apply the program to?

Mr. **MENDELOWITZ**. Possibly.

Mr. **ROBERTS**. How much time is involved? Can you make those decisions? You made mention on the fact that on the easy ones you're able to do it fairly quickly but on the more difficult ones, why, you bump it around like a pinball machine or something here. Ask Mr. Rothouse. I haven't heard him. I don't want to deny anybody the opportunity to respond to this subcommittee. Mr. Rothouse, do you have any comments on that, as to the time?

Mr. **ROTHOUSE**. It's primarily Agriculture officials that are involved on a steady basis in the program.

Mr. **ROBERTS**. Well, a week, a day, a month? Say I run down there and I attend that meeting and I say, "Why don't you sell it to country X?" Mr. Evans has been over to country X. He is an expert on it. He is. He can tell you all about Africa and he can say why are we selling this to wherever it was that he wanted to sell it, and I say, "Why don't we sell this?" How much time have we got to go through before we make that decision?

Mr. **ROTHOUSE**. Well, first of all, there would have to be analysis done at the Department of Agriculture, and then it would go to the interagency review group, and then if there was a further problem——

Mr. **ROBERTS**. I really think we have bought a pig in a poke here, and BICEP should be put into a pork chop, I think. That's about the way I feel about it.

Allan, let me just ask you, if you had your choice—I'm going to put you on spot, now. You're going to vote here on the farm bill. You're either going to vote for Mr. Bedell's approach or the Roberts marketing loan. That's a heck of a choice. [Laughter.] My advice to you is to go with the chairman, but——

Mr. **BEDELL**. That's also my advice.

Mr. **ROBERTS**. Now, see, Mr. Bedell and I really wanted to plant the export flag in the language of the farm bill, so we mandated it. We said, "Do it." We didn't quite tell the Secretary how to do it, you understand. It's like this BICEP Program, but we said, "Do it, across the board, in export PIK. Let's get this thing going," and yes, that would mean subsidizing grain to the Soviet Union and all sorts of foreign policy considerations everybody on this interagency task force would get heartburn over.

And Roberts here, he has got a marketing loan concept that said let that price go wherever it's going to go, and the farmer would only have to pay back that price and then he would receive the difference between that and the loan rate. My idea was to get there from here, quit the agony, quit the 5-year gradual racheting down where our competitors just simply hide underneath our umbrella. Let's get there from here.

Now if you had to pick between those two, what would you do? Now of course I take the easy way out. I don't lower that subsidy but really what we're asking is, do you think it's going to work to lower that farm program support or do you think something like an export PIK, if you had to take your pick between the two, what would you pick?

Mr. MENDELOWITZ. I am going to preface my answer by saying that I really don't have enough familiarity——

Mr. ROBERTS. You're going to demur?

Mr. MENDELOWITZ. No, I'm going to give you an answer, though. I don't have enough familiarity to speak on behalf of the agency on which one we might choose, so therefore——

Mr. ROBERTS. Mr. Chairman, I ask unanimous consent that I may be granted 2 additional minutes. I don't like to look at red lights. We've got a red light on this BICEP Program. I'd rather have a green one up there.

Mr. BEDELL. Without objection, so ordered.

Mr. ROBERTS. Thank you.

Mr. MENDELOWITZ. But from my personal perspective and my familiarity with how markets work, I think that any initiative that separates out the price of agricultural commodities from efforts to provide for acceptable income to the farm sector would ultimately be more efficient. I think that whenever we pursue a program that tries to divert income to the farm sector by keeping prices above world prices, we're going to run into difficulty.

Mr. ROBERTS. I thank you for your comment.

Do any of you other gentlemen have anything additional to offer?

Mr. THOMAS. We will keep you abreast as we develop more information on the program.

Mr. ROBERTS. All right. Thank you very much. I appreciate it, Mr. Chairman.

Mr. BEDELL. I ask unanimous consent that I might be able to pursue an issue with the witnesses.

Mr. ROBERTS. Without objection, Mr. Chairman.

Mr. BEDELL. Thank you.

In your prepared statement on page 6, you say, "Therefore, there is a basis to expect that, in the agricultural sector, countersubsidies may be of some use in bringing subsidizing competitors to the negotiating table." Then further down you say, "but given the limited scope of the program, we question whether these increased costs will be sufficient to bring about the desired negotiations."

That implies that there might be some benefit to negotiations among the countries of the world that are producing more of agricultural commodities than the world needs at this time. Many of us would agree with that assessment. I am one of those. But if that is the case, is it not true that that problem is caused not just by the European Community but by Argentina and Brazil and Australia and Canada and the United States and all of us? Would you agree with that?

Mr. MENDELOWITZ. Yes.

Mr. BEDELL. If we are trying to bring people to the negotiating table, does it not make sense that we should try to bring all of those that are contributing to the problem to the negotiating table to address the real problem, which is not simply subsidization by some countries but overproduction. The United States has had a program of limiting our production, while the rest of the world has taken those markets away from us.

So, it appears that the program as it is now fashioned is directed at the European Community to try to get them to limit export subsidies. That is a problem, but the real problem we have is not just the export subsidy of the European Community. The real problem we have is surplus productive capability and surplus production, and the problem we should be addressing is that problem. If we are going to address that, then you go in a completely different direction than what is apparently the goal of the people that are responsible for this program, and who we ought to be trying to get to the negotiating table is those people that are responsible for the real problem. Do you disagree with that?

Mr. MENDELOWITZ. There are different dimensions of the problem. Clearly the fundamental problem that overlays all of these discussions is the fact that the world is awash in grain. The expectation is that if grain prices are permitted on the world market to move downward toward a market-clearing level, there would be a reduction of supply overall in the market.

From countries that do not subsidize their exports, the expectation is that the market signal will produce the desired reduction in production. From countries that do subsidize their exports, like the Common Market, the hope is that a combination of making the subsidy program more expensive as well as pressure that can be brought to bear in negotiations will produce the desired reduction in production and exports. Clearly you have articulated the problem obviously quite correctly, and I'm sure that your familiarity with it is probably much greater than mine.

Mr. BEDELL. But this, instead of targeting at the total problem, this simply targets the European Community, trying to get them to change their ways, whereas they are only part of the total problem we face.

Mr. MENDELOWITZ. That's correct. If you look at patterns of grain trade over the past 5 years, particularly in 1985 the Common Market appears to have substantially increased its exports, but we faced very real market share loss from other exporters—Canada, Argentina, Australia.

Mr. BEDELL. Thank you very much for your testimony. We appreciate it very much. Thank you.

Mr. MENDELOWITZ. Thank you very much.

Mr. **Bedell.** Panel 2 consists of Mr. Myron "Mike" Laserson of Continental Grain, president, North American Export Grain Association; Mr. Sheldon Hauck, president, National Soybean Processors Association; and Mr. Richard Fritz, director, market analysis, U.S. Wheat Associates.

We will hear from you first, Mr. Laserson.

STATEMENT OF MYRON R. LASERSON, EXECUTIVE VICE PRESIDENT, CONTINENTAL GRAIN CO., AND PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION

Mr. **Laserson.** Thank you. Mr. Chairman and members of the subcommittee, my name is Myron R. Laserson. I am executive vice president of Continental Grain Co. and president of the North American Export Grain Association, whose 38 member-firms, private companies, and cooperatives, ship approximately 90 percent of the grain export sales of the United States.

I also serve on the Advisory Committee to the U.S. Department of Agriculture for the BICEP Program. As you have heard earlier, the second meeting of that committee is scheduled for tomorrow.

Despite the fact that my company has benefited from a substantial sale under the BICEP Program, it is my sad duty to advise you that the program has few, if any, positive features if its purpose is to help American agriculture.

I welcome this opportunity to appear before the subcommittee and to set the record straight on the dismal condition of the grain export industry—an industry that one way or another affects the economic existence not only of farmers but the fertilizer industry, the shipping industry, the banking industry, the steel industry, and a host of others totaling no less than 20 percent of the U.S. population.

I would point out further that the current debate on the 1985 farm bill may lead to disastrous changes in the price of food in this country if the export problem is not solved in a way that will keep the unit price of grain affordable for the public at large.

The BICEP Program fails simply because of its fatal flaw of discrimination against our major customers. There are minor problems in mechanics and implementation but nothing extraordinary within the context of a new program and inevitable Government bureaucracy in administration.

The mechanical details can be sorted out, and I believe will be over time, but by then we will have a new farm program and we may be out of business. We need to understand now that the BICEP Program not only is not helping our business, because you would not need this hearing to know this. The BICEP Program, as constructed, will result in lower exports than we would have had without the program.

It is a sad moment in a tradition of tampering with markets that result in shooting ourselves in the foot, that this time we have indeed crippled ourselves. It is even sadder that we have engaged in a trade war with both hands tied behind our backs.

We have, as merchants, put two signs in our store windows. The first says to customers, "Do not buy now because later the price will be cheaper."

The second says, "If you are a good customer now, you will not get the benefit of our price reduction."

Is it any wonder that the world wheat trade is going down, and our share of that lower market is shrinking even more. We cannot escape from the conclusion that our policy is a major cause of what is going on. I submit that if the present BICEP Program is not modified quickly to end this discrimination, our wheat exports will not be the 1.2 billion bushels forecast by USDA, but they will be at least 25 percent lower than that.

I have tried to get answers as to why we have this discriminatory policy which, as you know, is labeled as a "targeted approach." I am told on the one hand that we are interested in competing only for those markets that the EEC, with its unfair subsidy, has taken from us.

We are not so interested in competing with Canada or Australia or Argentina, as their competition is somehow fairer than that of the EEC. This reasoning, of course, is completely spurious. Grain and grain prices are fungible. International prices will always go to the lowest common denominator. If our price takes business in Egypt, then the EEC or Canada or Australia or Argentina will use that price to do business in Turkey or in the U.S.S.R. or in Brazil—markets that otherwise might buy from us but are excluded from participation in the BICEP Program.

On the other hand, I am told that the real reason we have this discriminatory policy is that the administration and the public do not want to subsidize sales to the Soviet Union. Obviously, I am not qualified to address all the implications of our Nation's foreign policy.

Nevertheless, the history of the grain embargo should have taught us that foreign policy should have attainable objectives and not be posturing that hurts us more than those whom our policies are designed to hurt. The Soviet Union is the largest buyer of wheat in the world, and consequently has been helped more than any other nation by the BICEP Program. International wheat prices from all origins have fallen to their lowest level in a decade, and the Soviet Union is able to buy wheat from any of our competitors, including the EEC and Argentina and Australia and Canada, at prices forced down in part by our policy.

Only the United States loses, because our sales of wheat for shipment during the second year of the long-term agreement with the Soviet Union were below the minimum called for in the agreement, and our sales for this crop year may be nonexistent.

How did we get into this position? Why do we persist in being our own worst enemy? I submit that the Congress has a special obligation in evaluating these programs, particularly as it debates the 1985 farm bill. I submit that export programs of any kind have to be carefully considered in terms of real effect on world trade and the long-term implications for agriculture as an industry. I submit further that short-term results will always have a bearing and have to be part of the analysis.

Finally, I want to thank you again, Mr. Chairman, for this opportunity to discuss these issues. It has become abundantly clear that the Congress of the United States will have to be strong enough to mandate effective policy, as all our efforts to persuade the administration have so far failed.

[The prepared statement of Mr. Laserson follows:]

STATEMENT OF
THE NORTH AMERICAN EXPORT GRAIN ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH AND FOREIGN AGRICULTURE
COMMITTEE ON AGRICULTURE
UNITED STATES HOUSE OF REPRESENTATIVES
OCTOBER 8, 1985

Mr. Chairman and Members of the Subcommittee:

My name is Myron R. Laserson. I am Executive Vice President of Continental Grain Company and President of the North American Export Grain Association whose 38 member firms, private companies and cooperatives, ship approximately 90% of the grain export sales of the United States.

I also serve on the Advisory Committee to the U.S. Department of Agriculture for the BICEP program. As you may know, the second meeting of that committee is scheduled for tomorrow.

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an industry that one way or another affects the economic existence not only of farmers, but the fertilizer industry, the shipping industry, the banking industry, the steel industry and a host of others totaling no less than 20 percent of the U.S. population.

I would point out further that the current debate on the 1985 Farm Bill may lead to disastrous changes in the price of food in this country if the export problem is not solved in a way that will keep the unit price of grain affordable for the public at large.

The BICEP program fails simply because of its fatal flaw of discrimination against our major customers. There are minor problems in mechanics and implementation ... but nothing extraordinary within the context of a new program and inevitable government bureaucracy in administration.

The mechanical details can be sorted out and I believe will be over time...

but by then we will have a new farm program and we may be out of business. We need to understand now that the BICEP program not only is not helping our business, because you would not need this hearing to know this. The BICEP program as constructed will result in lower exports than we would have had without the program.

It is a sad moment in a tradition of tampering with markets that result in shooting ourselves in the foot that this time we have indeed crippled ourselves. It is even sadder that we have engaged in a trade war with both hands tied behind our back.

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The first says to customers: "Do not buy now because later the price will be cheaper."

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Only the United States loses because our sales of wheat for shipment during the second year of the long term agreement with the Soviet Union were below the minimum called for in the agreement...and our sales for this crop year may be non-existant.

How did we get into this position? Why do we persist in being our own worst enemy?

I submit that the Congress has a special obligation in evaluating these programs, particularly as it debates the

1985 Farm Bill. I submit that export programs of any kind have to be carefully considered in terms of real effect on world trade and the long term implications for agriculture as an industry. I submit further that short term results will always have a bearing and have to be part of the analysis.

Finally, I want to thank you, again, Mr. Chairman for the opportunity to discuss these issues. It has become abundantly clear that the Congress of the United States will have to be strong enough to mandate effective policy as all our efforts to persuade the Administration have so far failed.

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Mr. Hauck.

STATEMENT OF SHELDON J. HAUCK, PRESIDENT, NATIONAL SOYBEAN PROCESSORS ASSOCIATION

Mr. HAUCK. Thank you, Mr. Chairman. My name is Sheldon Hauck and I am president of the National Soybean Processors Association [NSPA], who process over 60 percent of America's soybean crop into soybean meal and oil. I will submit my whole statement for the record, Mr. Chairman, and just highlight some parts of it.

NSPA, when this program was announced in May of this year, we viewed it as a special opportunity for us to enhance our section 301 petition before the U.S. Trade Office, in an attempt to regain markets, particularly lost to Argentina and Brazil, that were directly the result of their subsidization programs that impacted very greatly on the soybean complex in the export market. We viewed it as a short-term assistance in our case, where we hoped that we were heading toward a long-term solution through the efforts of the trade representative's office. That petition, I suggest, is at the moment languishing and has been for several months, for reasons that are kind of related and tied into why we feel that the BICEP Program, or whatever name we want to attach to it, hasn't moved very far since the original announcement.

We didn't see it as a long-term solution to the problem but the fact that it was a targeted program directed specifically toward unfair trade practices. The criteria were announced by earlier witnesses, but we felt specifically that the NSPA concerns met each of the four criteria. Based on that, we submitted to the Secretary four proposals of specifically targeted export PIK projects in May 1985. They haven't moved through the pipeline at all, beyond whoever received the original filing.

Of particular interest was India, a country that the United States, through its market development activities and Public Law 480 Program, opened to soybean oil in the fifties and sixties, that today for all practical purposes has been lost to Argentina and Brazil. I just might add as an aside, to give you an idea of the extent of the subsidies from Argentina, a year ago last September in the office of the State Trading Corp. in Delhi, at a time certain—about September 14, as I recall—Argentina was offering soybean oil delivered into India at approximately $90 a ton cheaper than the United States could deliver it on that particular day.

We have seen a decrease in our exports of soybean oil to India from around 500 million tons a year to less than 200 million, while almost the equivalent amount now you will find on the charts under Argentina and, to a lesser degree, Brazil. But it is a real problem to this industry, and we thought the BICEP Program might have been a very effective way of putting a shot across the bow, if you will, but that hasn't happened for reasons that I will address, which I think impact on the progress of our section 301 case as well.

We don't have any problem with the Department of Agriculture's interest in our case, and concerns. They have been very supportive to us in the section 301 case particularly, and I think privately recognize the validity of our suggestions as to the BICEP Program as to soybean oil. But I think, as particularly you, Mr. Chairman, and you, Mr. Roberts, indicated, the bureaucracy that one has to go through to get an effective implementation of any of these programs is almost insurmountable.

We hear, and I guess we have good reason to believe that the concerns as to why these projects can't be implemented or proceed further into the pipeline is because of the impact they have on Argentina particularly and their balance of payments programs, and trying to repay the banks north of here. So, I guess our plea is, Is this an agriculture policy program as announced by the Secretary and looked at in kind of isolation as a specific short-term project to enhance exports, particularly targeted toward those countries that are importing under subsidies from the exporting countries?

If it is looked at in that sense, it seems to me that the Congress has got to mandate the implementation of the program as originally conceived, and take the arbitrariness out of it and the review process out of it. At least that's the NSPA's position. In the universe of global politics, U.S. international trade policy, financial, economics, the whole laundry list of concerns that come into consideration on this project, I doubt if anyone is ever going to make it through the gauntlet.

So, we are proposing four things: That USDA should be mandated to propose regulations to implement the program; encourage broad participation; establish priorities; and remove as much arbitrariness as possible from the program. That's the essence of our message here today, and we have attached to the appendixes the proposal we submitted last spring to the Department. The program for us has not fulfilled its potential for success.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hauck follows:]

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE

Testimony of
Sheldon J. Hauck, President
NATIONAL SOYBEAN PROCESSORS ASSOCIATION

October 8, 1985

Good Morning, Mr. Chairman, Members of the Subcommittee, Ladies and Gentlemen. My name is Sheldon Hauck and I am President of the National Soybean Processors Association (NSPA). NSPA members purchase approximately 60 percent of America's soybean crop for processing into two co-products, soybean meal and soybean oil. All of us at NSPA very much appreciate your invitation to us to testify before you today on the operation and effectiveness of the Agriculture Department's export "payment in kind" ("PIK") program, or, as it is also widely referred to, the "BICEP" program.

When Secretary of Agriculture John Block announced the "export PIK" or "BICEP" program on May 15, 1985, we in the soybean processing industry viewed the program as an opportunity for us to help regain third country markets lost by the U.S. during the past decade to the foreign unfair trade practices of Brazil and Argentina in the soybean sector.

We in the soybean processing industry particularly liked the fact that the program announced by the Secretary was a targeted program with a directed towards unfair trade practices. CCC commodities were not to be used indiscriminately, but only as part of targeted export enhancement assistance to put enable U.S. exporters to consummate sales which they otherwise would not make. As originally announced by the Secretary, four criteria had to be met in order for a commodity sector to qualify to participate in the program:

1. **Additionality:** Sales must increase U.S. agricultural exports above what would have occurred in the absence of the program;

2. **Targeting:** Sales will be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports;

3. **Cost Effectiveness:** Sales should result in a net plus to the overall economy; and

4. **Budget Neutrality:** Sales should not increase budget outlays above what would have accrued in the absence of a program.

NSPA members felt strongly that our sector met each of the criteria outlined above and accordingly proceeded to suggest to USDA that consideration be given to developing a program that could benefit this industry.

By way of background, NSPA had filed a section 301 petition in April of 1983 against Argentine and Brazilian unfair trade practices in world soybean oil and meal markets. Our first impression therefore was that the "BICEP" program could effectively help us in pursuance of the relief sought in our #301 case by increasing our leverage to promote its successful resolution.

Accordingly, on May 23, 1985, NSPA provided Secretary Block with four specifically targeted export PIK projects (See **APPENDIX I**), the largest of which involved shipments of 300,000 to 400,000 metric tons of soybean oil to India. As many of you know and appreciate, the Indian market for soybean oil was originally developed at U.S. taxpayer expense under the P.L. 480 "Food for Peace" program, but has increasingly been taken over by Argentine and Brazilian soybean oil during the last decade due to its unfair trade practices in world soy oil markets. NSPA also provided Secretary Block with draft regulations to implement the export PIK program (See **APPENDIX II**).

Today, the U.S. soybean processing industry, continues to be buffeted by Argentine and Brazilian unfair trade practices to the point that the U.S. share of world soybean meal and oil markets has fallen by over 40 percent during the last decade. The effect of this loss of markets has been felt dramatically by all in the soybean complex, growers, processors, handlers, and exporters, the U.S. balance of payments and throughout the U.S. agricultural economy.

Today, we are appearing here for several reasons. First, to urge the Congress to mandate the effective implementation of the program; Second, to mandate the qualifying rules as to which commodity sectors can participate and under what circumstances; and Third, to ask that we focus on the agricultural questions and problems the program was designed to relieve and not be burdened by political considerations unrelated to the farm economy.

Our request to USDA to implement soybean oil projects under the BICEP program has not been acted on and we have no reason to believe that it is even under active consideration within our government.

Why? We're not sure, but we have significant evidence that our program cannot be considered because of the impact it might have on the ability of Argentina and Brazil to service its debt to U.S. banks.

Knowledgable trade sources surmise that either the National Security Council, the Office of Management and Budget, or the U.S. Treasury Department have ruled out any projects which would negatively impact Argentina or Brazil in world export markets. The purported reason for this thinking is that Argentina and Brazil are developing countries with serious debt-servicing problems and the U.S. banking community has a high degree of exposure there.

We'd like to urge in a most positive way that we believe that an export PIK program can afford our industry, and U.S. agriculture, a genuine chance to enhance our exports and increase our leverage in our section 301 case to promote its successful resolution. Accordingly, we have a number of recommendations to make to improve the operation of the program.

First, USDA should propose, or be required by the Congress to propose, regulations to implement the export PIK program. These regulations should provide procedures for public comment to improve the proposal, and, once implemented, should provide open and fair opportunities for participation in the program by interested commodity groups. We would specifically suggest that legislation requiring USDA to implement an export PIK program include a provision requiring the Secretary to issue proposed regulations within 60 days after the date of enactment, and final regulations no later than 120 days after enactment.

Second, USDA should encourage, or Congress should require USDA to encourage, broad participation in the export PIK program by a wide variety of commodity groups and organizations, representing both grains and oilseeds, and the value-added processed products thereof. We would propose language that would require the Secretary of Agriculture to issue regulations which would ensure such broad participation in the program.

Third, USDA should accord, or be required by the Congress to accord, priority participation in the export PIK program to those industries and commodity groups which have been victims of unfair trade practices in third country markets and which have filed a petition which has been accepted by the U.S. Trade Representative under section 301. We would propose language requiring the Secretary of Agriculture to accord such priority participation in the regulations issued to implement the program.

Fourth, the Secretary of Agriculture, in utilizing CCC stocks to combat unfairness in world agricultural trade, should do so with the strongest legislative authority behind him as to what subsidies and unfair trade practices are.

In this regard, all of us at NSPA applaud the bipartisan action of the House of Representatives last Thursday, October 3rd, in passing the Durbin Amendment to section 1125 of H.R. 2100. The Durbin Amendment strengthens the Secretary's authority to counteract export subsidies by recognizing that nations seeking to subsidize agricultural exports have increasingly begun to develop new ways of achieving their ends without violating traditional definitions of export subsidies.

Mr. Chairman, with these suggestions and recommendations we believe that USDA's export PIK or BICEP program can become a successful program and can achieve its objective of U.S. agricultural export enhancement. As we wrote the Secretary of Agriculture on May 23rd, "the BICEP program, properly used and focussed, can send a strong message to foreign countries that the U.S. will not stand idly by while its export markets are eroded by unfair competitiion. Focussed on the oilseeds sector, BICEP can be a valuable tool to bring countries to the negotiating table for the purpose of restoring free trade conditions to the world oilseeds economy, which has long been an objective of the U.S. industry."

Mr. Chairman, for whatever reasons, the program has not fulfilled its potential for success. With the assistance of Congress in limiting the Administration's discretion through legislation, we believe the program can succeed. We ask that serious consideration be given to the NSPA recommendations outlined above.

By so doing, not only will export PIK work to enhance exports, but also the effectiveness of section 301 will be enhanced by giving countries targeted under export PIK a reason to come to the negotiating table and resolve their underlying trade practices disputes with the U.S.

Thank you, Mr. Chairman. I would be happy to answer any questions at this time.

SHELDON J. HAUCK
President
National Soybean Processors Association

(Appendixes follow:)

APPENDIX I

NSPA
NATIONAL SOYBEAN PROCESSORS ASSOCIATION

1800
M
STREET
N.W.
WASHINGTON
D.C.
20036

(202) 452-8040

TELEX:
248959

TELECOPIER:
(202) 833-3636

May 23, 1985

COPY

Honorable John R. Block
Secretary
U.S. Department of Agriculture
Room 200-A Administration Bldg.
14th St. & Independence Ave., S.W.
Washington, D.C. 20250

Dear Mr. Secretary:

The National Soybean Processors Association would like to take this opportunity to express its support for and appreciation of the Administration's "Bonus Incentive Commodity Export Program" ("BICEP"), which you announced on May 15, 1985. NSPA members--who purchased and crushed 60 percent of America's soybean crop during the most recent crop year--feel very strongly that the program can have a positive effect on international trade in the soybean complex.

The BICEP program, properly used and focussed, can send a strong message to foreign countries that the U.S. will not stand idly by while its export markets are eroded by unfair competition. Focussed on the oilseeds sector, BICEP can be a valuable tool to bring countries to the negotiating table for the purpose of restoring free trade conditions to the world oilseeds economy, which has long been an objective of the U.S. industry.

To maximize its effectiveness, however, the BICEP program must implement specific, targeted projects against those countries which--through subsidies or other unfair or trade-distorting practices--have displaced exports of U.S.-origin soybean oil from historic U.S. export markets. These countries are well known to the U.S. government and are the subject of a petition, filed in April 1983 with the U.S. Trade Representative pursuant to section 301 of the Trade Act of 1974.

Accordingly, NSPA has developed several specific, targeted projects for your consideration for implementation under the BICEP program. All involve the use of CCC bonus commodities to buy down the price of U.S.-origin soybean oil exports to India, Turkey, Tunisia and Morocco. Each of these countries are historic export markets for U.S.-origin soybean oil, each of which has been displaced, through subsidies and unfair trade practices, by soybean oil exports from

DONALD H. LEAVENWORTH
Chairman
C. LOCKWOOD MARINE
Vice Chairman
SHELDON J. HAUCK
President
STANLEY V. EICHTEN
Secretary/Treasurer

Honorable John R. Block
May 23, 1985
Page Two

Spain, Brazil, or Argentina. We have provided our specific projects under separate cover letter of today's date to Richard A. Smith, Administrator of the Foreign Agricultural Service, copy enclosed.

In addition, NSPA would like you to know that we appreciate the difficulties in implementing a program of this type and honest differences of opinion as to its wisdom or use will certainly surface even within the soybean sector, as well as within the U.S. government. However, in the spirit of assisting you and your colleagues in implementing a program which will afford our trade negotiators a beautiful negotiating tool to help restore free trade conditions to the world oilseeds sector, NSPA is preparing our ideas of what draft regulations to implement the BICEP program should contain, a copy of which will be hand-delivered to your office tomorrow afternoon.

Again, NSPA would like to express our thanks to the Administration for taking what is an important and courageous initiative at a very difficult time. Properly used, the BICEP program can be an instrument to achieve positive results for the U.S. soybean complex. NSPA stands ready to be of whatever assistance we can be to you in ensuring the success of this effort.

Cordially,

Sheldon J. Hauck

Sheldon J. Hauck
President

Enclosures

cc: Honorable Robert E. Lighthizer

SOYBEAN OIL EXPORT PIK
TARGET COUNTRY PROJECTS FOR BICEP PROGRAM

TARGET COUNTRY MARKET: INDIA:

OBJECTIVE: To take the Indian market for soybean oil imports away from Brazil and Argentina, both of which are increasingly obtaining the business through illegal subsidies and unfair trade practices at U.S. expense.

BACKGROUND: The Indian market for soybean oil was developed by U.S. soybean oil exports in the 1950's and 1960's through P.L. 480. India graduated to commercial market status in the 1970's but U.S. market share eroded significantly due to Brazilian, and more recently, Argentine export subsidies, as described more fully in petition filed pursuant to section 301 of the Trade Act of 1974 by the National Soybean Processors Assn.

QUANTITY: Propose to give Indian State Trading Corp. title to an amount of CCC surplus commodities--to be sold on world market by its own tender or by private exporters for it--necessary to buy down price of 300,000 to 400,000 metric tons of U.S. soybean oil to a point sufficient to take the business away from the Brazilians and Argentines.

RECENT TRADE DATA (000 MT):
(U.S. and principal competitors)

	CY1984	CY1983	CY1982	CY1981	4-YR. TOTAL
Argentina	**94.5**	**19.6**	**2.2**	----	**116.3**
Brazil	**398.3**	**363.8**	**349.6**	----	**1111.7**
Spain	25.1	44.3	----	----	69.4
United States	196.9	58.7	39.9	91.7	387.2

TARGET COUNTRY MARKET: **TURKEY:**

OBJECTIVE: To take the Turkish market for soybean oil imports away from Spain, which has obtained the business through illegal subsidies and unfair trade practices at U.S. expense.

BACKGROUND: The Turkish market for soybean oil was developed by U.S. soybean oil exports in the 1950's and 1960's through P.L. 480. Turkey had graduated to commercial market status by the 1970's but U.S. market share disappeared following 1975 imposition by Spain of consumption quotas on soybean oil to protect Spanish olive oil producers. Coupled with over-rebates of indirect taxes and preferential financing schemes, more fully described in section 301 petition by NSPA, the U.S. had all but been frozen out of one of its historic markets by the 1980's, as the data below shows.

QUANTITY: Propose to give Turkey title to an amount of CCC surplus commodities--to be sold on world market by its own tender or by private exporters for it--necessary to buy down the price of 100,000 metric tons of soybean oil to a point sufficient to take the business away from Spain.

RECENT TRADE DATA (000 MT):
(U.S. and principal competitors)

	CY1984	CY1983	CY1982	CY1981	4-YR. TOTAL
Argentina	3.0	----	----	----	3.0
Brazil	----	----	7.0	----	7.0
Spain	**84.6**	**68.8**	**122.1**	**123.8**	**399.3**
United States	----	----	----	----	----

TARGET COUNTRY MARKET: MOROCCO:

OBJECTIVE: To take the Moroccan market for soybean oil imports away from Spain, which has obtained the business through illegal subsidies and unfair trade practices at U.S. expense.

BACKGROUND: The Moroccan market for soybean oil was developed by U.S. soybean oil exports in the 1950's and 1960's through P.L. 480. Morocco graduated to commercial market status in the 1970's but U.S. market share eroded significantly due to Spanish diversion of soybean oil into Northern Africa as a result of its domestic consumption quotas on soybean oil. Coupled with preferential financing and over rebates of indirect taxes, and other practices described in NSPA's section 301 petition, the U.S. has been totally excluded from the Moroccan market in recent years.

QUANTITY: Propose to give the Moroccan Government title to an amount of CCC surplus commodities--to be sold on world market by its own tender or by private exporters for it--necessary to buy down price of 75,000 MT of U.S.-origin soybean oil to a point sufficient to take the business away from Spain.

RECENT TRADE DATA (000 MT):
(U.S. and principal competitors)

	CY1984	CY1983	CY1982	CY1981	4-YR. TOTAL
Argentina	2.9	2.9	12.0	----	17.8
Brazil	11.0	28.1	32.9	----	72.0
Spain	**63.0**	**32.3**	----	**74.0**	**169.3**
United States	----	8.8	9.8	4.9	23.5

TARGET COUNTRY MARKET: **TUNISIA:**

OBJECTIVE: To take the Tunisian market for soybean oil imports away from Spain, which has obtained the business through illegal subsidies and unfair trade practices at U.S. expense.

BACKGROUND: The Tunisian market for soybean oil was developed by U.S. soybean oil exports in the 1950's and 1960's through P.L. 480. Tunisia graduated to commercial market status in the 1970's but U.S. market share eroded significantly due to Spanish diversion of soybean oil into Northern Africa as a result of its domestic consumption quotas on soybean oil. Coupled with preferential financing and over rebates of indirect taxes, and other practices described in NSPA's section 301 petition, the U.S. has been totally excluded from the Tunisian market in recent years.

QUANTITY: Propose to give the Tunisian Government title to an amount of CCC surplus commodities--to be sold on world market by its own tender or by private exporters for it--necessary to buy down price of 75,000 MT of U.S.-origin soybean oil to a point sufficient to take the business away from Spain.

RECENT TRADE DATA (000 MT):
(U.S. and principal competitors)

	CY1984	CY1983	CY1982	CY1981	4-YR. TOTAL
Argentina	2.0	----	----	----	2.0
Brazil	3.8	----	----	----	3.8
Spain	**47.5**	**58.1**	**75.5**	**66.3**	**247.4**
United States	----	6.1	0.1	----	6.2

APPENDIX II

NSPA
NATIONAL SOYBEAN PROCESSORS ASSOCIATION

1800
M
STREET
N.W.
WASHINGTON
D.C.
20036

(202) 452-8040

TELEX:
248959

TELECOPIER:
(202) 833-3636

May 24, 1985

Honorable John R. Block
Secretary
U.S. Department of Agriculture
Washington, D.C. 20250

COPY

Re: **Draft BICEP Program Regulations**

Dear Mr. Secretary:

This letter is to follow up yesterday's letter to you from NSPA President Sheldon J. Hauck promising that we would supply you with our ideas as to the content of draft regulations to implement the "Bonus Incentive Commodity Export Program" ("BICEP"). I am pleased to provide for your consideration a first draft of BICEP regulations, prepared by NSPA in consultation with our attorneys, copy enclosed. On behalf of NSPA, I would like to reiterate our offer to assist you and your colleagues in connection with BICEP's implementing regulations in any way that we possibly can do so.

I would like to emphasize that the NSPA draft represents the "current state of our thinking" on implementation of BICEP and should not be construed as a final, official NSPA position. We offer the draft to you and your colleagues in the spirit of industry/government cooperation in implementing what we feel can be a program with significant positive potential for the U.S. soybean complex. Our aim is to help focus the dialogue through a constructive contribution to help get BICEP off the ground in a workable manner. Naturally we reserve the right to revise and refine it.

Perhaps uniquely with respect to the soybean complex, we are confident that BICEP can be focussed and targeted so as to eliminate the crushing margins of foreign competitors who have gained export markets at the expense of the United States through subsidies and other unfair and trade-distorting practices. In the oilseeds sector, the elimination of competitors' crushing margins is the surest single inducement to bring them to the negotiating table. Viewed as a negotiating tool, BICEP affords one of the better chances in years to restore free trade conditions to the world oilseeds economy.

Cordially,

Rhond R. Roth
Director, Regulatory Affairs

DONALD H. LEAVENWORTH
Chairman
C. LOCKWOOD MARINE
Vice Chairman
SHELDON J. HAUCK
President
STANLEY V. EICHTEN
Secretary/Treasurer

COMPLIMENTS
OF
NSPA
NATIONAL
SOYBEAN
PROCESSORS
ASSOCIATION

NSPA Draft Regulations
Bonus Incentive Commodity Export Program

Subpart A: STATEMENT OF PURPOSE

A Bonus Incentive Commodity Export Program (BICEP) is hereby established by the Secretary of Agriculture to combat foreign subsidies and other unfair or trade-distorting practices, and thereby to promote the development, maintenance, and expansion of export markets for United States agricultural commodities and the products thereof.

Subpart B: DEFINITIONS

(1) The term "Secretary" means the Secretary of Agriculture.

(2) The term "advisory committee" means the Agricultural Export Program Advisory Committee appointed by the Secretary in accordance with the provisions of subpart C of these regulations.

(3) The term "agricultural commodities" includes, but shall not be limited to, wheat, feed grains, upland cotton, rice, soybeans, and dairy products produced in the United States and products thereof, including value-added or high-value products, processed in the United States.

(4) The term "bonus commodities" means agricultural commodities, and the products thereof, acquired through commodity loan and price support operations by the Commodity Credit Corporation.

(5) The term "eligible foreign market" means a market designated by the Secretary in accordance with the provisions of subpart D as one for which export sales of an agricultural commodity may be eligible for assistance under this program.

(6) The term "foreign subsidy or other unfair practice" means any subsidy provided by a foreign government, directly or indirectly, to a producer, processor or exporter of an agricultural commodity in that foreign country, or any other trade distorting practice having a similar effect, including but not limited to export subsidies, tax rebates on exports, financial assistance on preferential terms, provision of funds to cover operating losses, the assumption of any costs or expenses of production, processing or distribution, differential export taxes or duties, domestic consumption quotas and other methods of furnishing or ensuring the availability of raw materials at artificially low prices.

Subpart C: THE AGRICULTURAL EXPORT PROGRAM ADVISORY COMMITTEE

(1) The Secretary hereby establishes within the Department of Agriculture an advisory committee to be known as the "Agricultural Export Program Adivosry Committee".

(2) The advisory committee shall provide advice to the Secretary with respect to the implementation and administration of the BICEP program, including assistance in the designation of eligible foreign markets under subpart D of these regulations; the establishment of appropriate commodity

payment rates under subpart E of these regulations; and other matters necessary for the effective operation of the program.

(3) The advisory committee shall be broadly representative of the private sector which engages in activities related to the export of United States agricultural commodities and shall consist of twelve members who have experience in agricultural production, agribusiness, and export marketing. The members shall be appointed by the Secretary. In addition, two individuals designated by the United States Trade Representative shall serve as ad hoc members of the Advisory Committee.

(4) The Secretary shall provide the advisory committee with necessary clerical assistance and staff personnel. The advisory committee may secure directly from any officer, department, or agency of the Government such information, suggestions, estimates, and statistics as the advisory committee may require for the purpose of carrying out its functions.

(5) Members of the advisory committee shall serve without compensation, except that members shall, while away from their homes or regular places of business in the performance of services to this committee, be allowed travel expenses, including per diem in lieu of subsistence, as authorized under the Department's guidelines and applicable federal law.

(6) The advisory committee shall comply with the provisions of the Federal Advisory Committee Act.

Subpart D: DESIGNATION OF ELIGIBLE FOREIGN MARKETS

(1) The Secretary, with the assistance of the advisory group, and after consultation with the United States Trade Representative, shall designate those foreign markets as to which export sales of agricultural commodities are eligible to obtain bonus commodities under this program.

(2) Each eligible foreign market designated will be identified by reference to both a specific agricultural commodity and a specific foreign country to which the agricultural commodity is exported.

(3) In designating the eligible foreign market the Secretary shall consider the following criteria:

(a) whether the United States market share in the proposed eligible foreign market has declined;

(b) whether there is foreign competition in the proposed eligible foreign market that benefits from subsidies or other unfair trade practices; and

(c) whether the price levels for the specified commodity in the proposed eligible foreign market have generally been below competitive world price levels for the same commodity as determined by reference to price levels on the Chicago Board of Trade, the Rotterdam market or other markets indicative of world prices levels for the specific commodity, during the same period.

(4) The Secretary shall designate eligible foreign markets based on information obtained from the advisory

committee, the office of the United States Trade Representative, other agency of government, or through petitions submitted by domestic producers, processors or exporters of agricultural commodities, or their representative.

(5) The Secretary shall compile, maintain and periodically revise, a list of all eligible foreign markets. In considering and designating such eligible foreign markets, the Secretary shall give priority to the export markets of countries with which the United States has conducted consultations or negotiations concerning such subsidies or other unfair or trade-distorting practices.

(6) The Secretary shall consider all petitions requesting designation of an eligible foreign market under this program by domestic producers and processors of agricultural commodities or their representatives if those petitions contain:

(a) a statement identifying the petitioner as a domestic producer, processor or exporter of agricultural commodities, or a representative of same;

(b) identification of the proposed eligible foreign market by country and agricultural commodity;

(c) reliable information to show that the United States has lost market share in the proposed eligible foreign market;

(d) reliable information to show that there are foreign competitors in the proposed eligible foreign market that benefit from subsidies or other unfair trade practices.

All petitions considered by the Secretary shall be verified, under oath or affirmation, as true, upon personal knowledge or information and belief.

(7) The Secretary shall, within 45 days of receiving a petition reach a final determination as to designation unless he requests further information, in which case he shall make a final determination within 90 days. The Secretary shall publish a notice of his determination in the Federal Register.

(8) The Secretary shall designate eligible foreign markets for the period of one year beginning on the date of publication of said designation in the Federal Register. The Secretary's designations will be reviewed at the end of the one-year period and may be redesignated for additional one-year periods where the circumstances indicate that the United States continues to confront foreign competition that benefits from subsidies or other unfair trade practices. The Secretary may remove a foreign market from eligibility from the program before the end of one year where it is determined, after consultation with the United States Trade Representative, that the subsidy or unfair trade practice has been eliminated.

Subpart E: ESTABLISHMENT OF THE COMMODITY PAYMENT RATE

(1) The Secretary shall establish and revise, with the advice and assistance of the advisory committee and on a weekly basis, a commodity payment rate for each eligible foreign market designated under subpart D.

(2) The commodity payment rate shall represent the level of assistance -- expressed in dollars per unit of commodity -- which the Secretary determines is required to permit a United States seller of an agricultural commodity to compete in the eligible foreign market with foreign competition that benefits from subsidies or other unfair trade practices.

(3) In establishing the commodity payment rate, the Secretary shall consider:

(a) prevailing world market price levels for the commodity during the most recent thirty (30) day period;

(b) offer prices made by U.S. sellers in the eligible foreign market during the most recent thirty (30) days;

(c) actual sale prices in the eligible foreign market during the previous thirty (30) days;

(d) any reliable data or estimates of the level of subsidy or other benefit from unfair trade practices being received by foreign competitors who trade in the eligible foreign market; and

(e) any applicable adjustments for differences in transportation and shipping costs.

Subpart F: PAYMENT OF BONUS COMMODITIES

(1) The bonus commodities to be made available shall be of a value equal to (1) an export payment rate established by the Secretary and in effect at the time an offer is made in

an eligible foreign market, multiplied by (2) the quantity of the agricultural commodity exported in accordance with the terms of the sale.

(2) Bonus commodities shall be made available upon receipt of evidence of export, in accordance with the exporter's or user's offer accepted by the Secretary, except that the Secretary may provide for the bonus commodities to be made available for export in the same shipment as the export that serves as the basis for earning the bonus commodities. The bonus commodities may be of the same kind, or at the election of the exporter or user, a different kind than the commodity being exported, depending on the availability of bonus commodities and the most effective use of those commodities. Any price restrictions that may otherwise be applicable to dispositions of agricultural commodities shall not apply to dispositions of bonus commodities made available under the Act. Bonus commodities received by the exporter or user must be exported.

(3) In consideration of the receipt of bonus commodities, the exporter or user shall agree that if it fails to export or cause exportation as required by the offer accepted by the Secretary, the exporter or user shall pay to the Secretary liquidated damages in an amount equal to the closing price for the particular commodity on the Chicago Board of Trade on the day in which he took possession of the commodity. If the bonus commodities received by an exporter or user are not exported within the period of time prescribed by the

Secretary, the exporter or user shall pay to the Secretary a penalty in price equal to the difference between the price used in computing the amount of bonus commodities to be made available and the sales price of such commodities for unrestricted use.

(4) The Secretary may require exporters or users to provide reliable information to establish that the export was made to the eligible foreign market to which the export payment rate applied, and to comply with trade restrictions imposed by other provisions of law.

(5) During the three-year period beginning on the effective date of issuance of these regulations, the Secretary shall, to the extent practicable, provide bonus commodities under this section which, in the aggregate, are equal in value to at least $2,000,000,000, based on the commodity payment rates used in making the bonus commodities available to exporters and users.

(6) Equal treatment will be afforded to domestic and foreign purchasers and users of United States agricultural commodities in any case in which the importation into the United States of a manufactured product made, in whole or in part, from a commodity tendered for export under the program would place domestic users of the agricultural commodity at a competitive disadvantage.

(7) The payment of bonus commodities under this subpart shall be made through the Commodity Credit Corporation.

Mr. **Bedell**. Thank you very much, Mr. Hauck.
Mr. Fritz.

STATEMENT OF RICHARD FRITZ, DIRECTOR, MARKET ANALYSIS, U.S. WHEAT ASSOCIATES

Mr. **Fritz**. Mr. Chairman, members of the subcommittee, it is a pleasure to appear before you to review the Government's newly initiated Export Enhancement Program. I am Richard Fritz, director of market analysis for U.S. Wheat Associates. U.S. Wheat is a market development organization funded by American wheat producers and a cooperator with the U.S. Department of Agriculture. U.S. Wheat works in a number of foreign countries and is charged with increasing overseas demand for wheat through trade servicing, technical assistance, market information and analysis, and consumer education. U.S. Wheat is not a lobby organization but does testify occasionally on issues affecting wheat exports.

Before discussing the Export Enhancement Program, I would like to briefly review why such a program is needed. The table on the second page of my written testimony gives us a sobering look at our export performance so far this year. The USDA has estimated wheat exports in this marketing year—June through May—will reach 1.15 billion bushels or 31.3 million metric tons. If USDA is correct, this would be the lowest export level since 1977 when 1.12 million metric tons were exported. Many analysts outside of Government place exports at a much lower level—in the mid-900 million bushel range.

It is of interest to note that by this time in our wheat marketing year, we historically have booked 60 percent of our exports. Now, 18 weeks into the marketing year, we have booked approximately 25 percent of the USDA projection. This may be the first year since 1971 when domestic use is larger than overall exports.

What has caused this export decline? A number of factors have come together to cut U.S. exports. The value of the dollar has caused U.S. wheat to be more expensive to importers and world economic stagnation and debt problems have hindered the economic development of many of our best customers. In addition, world wheat prices have been below those of the United States. Government trade policy, especially past embargoes, and current debate over import restraints, also hampers U.S. export sales. And, finally, the imposition of cargo preference requirements to the blended credit program destroyed one of our better export initiatives. Worse, the ever-changing U.S. Government policies, such as cargo preference, have eroded the success of some of our programs overseas.

We are pleased to see the Government move to solve some of these problems. Coordinated efforts to reduce the value of the dollar will over time result in increased demand for U.S. farm products. Initiatives proposed in Seoul concerning IMF-World Bank lending could be bullish for U.S. exports, should these efforts result in stronger economies in developing nations. However, the recent action by the House indicates cargo preference requirements may be with us for some time.

The USDA has attempted to fight the problem of our prices being above those of other major exporters and to counter the subsidies they employ through the Export Enhancement Program. On May 16, Secretary Block announced a new program designed to increase U.S. agricultural exports and to fight the subsidization of exports by our competitors. Members of Congress had been pressing for an export enhancement type program, especially after the halting of sales under the blended credit program due to cargo preference requirements.

In announcing the program, Mr. Block stated that any export sales under the Export Enhancement Program must meet the following criteria: First, additionality; the Export Enhancement Program sale must result in increased U.S. exports sales above what would have occurred in the absence of a program. Second, each proposal must be targeted on a specific market. And, third, the proposal should not increase budget outlays.

Included in my written testimony is a table that provides a review of the initiatives announced so far. As of this date, only Export Enhancement Program sales to Egypt have been consummated.

Has the Export Enhancement Program in fact helped U.S. wheat producers? Being an economist, I am obliged to make a short- and a long-term assessment. Certainly the recent wheat flour sales meet the criteria of additionality. As for wheat, we must wait to see the end of the year imports by source of the targeted nations before that determination can be safely made. While only Egypt has obtained wheat and flour under the Export Enhancement Program since its May inception, I am confident that the targeted nations will try to utilize the program to at least some degree.

In the long run, the Export Enhancement Program could be very beneficial to U.S. producers so long as the Government expands and maintains the program for a sustained period, thus forcing our competitors to correct their export practices. In response to the Export Enhancement Program, the European Economic Community has aggressively sought markets in Africa and Yemen. A recent flour tender by Yemen was successfully bid by the EEC at $175 per ton, which is about $3 per ton below the United States bids. The EEC has also established a line of credit to Morocco of $500,000 and recently sold them 110,000 metric tons of wheat at prices between $104 and $105.75 per ton. In comparison, U.S. soft wheat prices at the gulf are running approximately $115 per ton.

The EEC was forced to increase their restitution levels in order to complete the sales to Yemen and Morocco. In addition, they have increased restitution levels to Algeria and other nations. A continued Export Enhancement Program, in conjunction with a lower U.S. dollar, will contribute to larger restitution payments in the foreseeable future, thereby increasing the cost of the common agricultural policy. Whether the Europeans are committed to continued heavy subsidization of the common agricultural policy will determine when they are ready to come to the bargaining table.

The EEC type of export subsidization is one which the Export Enhancement Program is designed to end. Thus, U.S. Wheat welcomes the Export Enhancement Program. The USDA has been willing to work with exporters in order to have the program work as smoothly as possible. But the program is too restricted, in that only nations in the Mediterranean have been targeted, and many of our best customers and markets are being excluded. There are a number of nations which currently fit the USDA-imposed criteria that could be named for the Export Enhancement Program. We urge the USDA to expand their list of targeted nations to include these countries.

Traditional customer reaction to the program is of major concern to American wheat producers. Some in the trade have claimed that the Soviet Union failed to purchase the minimum 4 million metric tons under the long-term grain agreement due to the fact they are ineligible to take advantage of the program. Certainly price considerations were a major factor in their failure to purchase the remaining 1.1 million metric tons during the agreement year.

In addition, the USDA policy of using the program in only EEC markets causes us deep concern. A good example of another country with an export subsidy that is harmful to United States wheat producers is Canada. It is a current policy of the Canadian Government to pay 79 percent of the cost of moving a farmer's wheat to an export location, and there is a table attached to the back of my testimony which outlines these freight rates. We feel that this gives the Canadian Wheat Board an unfair advantage over United States producers when they go out and try to sell Canadian wheat into the world market. U.S. Wheat Associates has submitted a section 305 request to the United States Trade Representative, asking them to look into this practice, and after that we will take it to the higher level of Government or a section 301 asking that this inequity be corrected.

The other problem we see with the Export Enhancement Program is that it does not take into account the needs of our traditional customers. For example, the Philippines purchase 100 percent of their wheat from the United States, and Korea and Nigeria buy almost exclusively from the United States. It is difficult to provide a price cut from other markets and not to those who buy U.S. wheat exclusively.

We do not endorse a particular program but there needs to be something done for these traditional customers. For example, the country buying 100 percent of its needs from the United States could receive a certain percentage as a bonus from the CCC, once they have purchased their minimum normal quantity, or we could go to a system that the Australians had several years ago where, if they purchased a certain percentage of their market share, they would then receive a rebate at the end of the marketing year from the Australians.

In summary, Mr. Chairman, the Export Enhancement Program appears to be working as set forth by the Secretary for the nations so far targeted. Unfortunately, those nations have not taken advantage of the program and I don't think that they can take advantage of the program to their full extent. By that, I mean Morocco probably cannot take 1.5 million metric tons from the United States in the next 12 months. The program needs to be expanded, and additional importers and exporters must be targeted. We must also set new criteria on the Export Enhancement Program or establish a separate export program to provide for the needs of our best customers.

I would be happy to answer any questions at the appropriate time.

[The prepared statement of Mr. Fritz follows:]

TESTIMONY OF RICHARD FRITZ

U.S. WHEAT ASSOCIATES

Mr. Chairman, members of the subcommittee, it is a pleasure to appear before you to review the governments newly initiated export enhancement program. I am Richard Fritz, Director of Market Analysis for U.S. Wheat Associates. U.S. Wheat is a market development organization funded by American wheat producers and a co-operator with the U.S. Department of Agriculture. U.S. Wheat works in a number of foreign countries and is charged with increasing overseas demand for wheat through trade servicing, technical assistance, market information and analysis, and consumer education. U.S. Wheat is not a lobby organization but does testify occasionally on issues affecting wheat exports.

Before discussing the export enhancement program (EEP) I would like to briefly review why such a program is needed. The table below gives a sobering look at our export performance so far this year. The USDA has estimated wheat exports in this marketing year (June-May) will reach 1.15 billion bushels (31.3 mmt). If USDA is correct, this would be the lowest export level since 1977 when 1.12 mmt were exported. Many analysts outside of government place exports at a much lower level - in the mid 900 million bushel range.

EXPORT SALES MY 1985/86 PROGRESS SUMMARY

Source: U.S. Export Sales Report, for the week ended September 26.

Class	Accumulated Exports (million metric tons) MY 84/85	Accumulated Exports (million metric tons) MY 85/86	Volume Difference	% Change From Last MY
Hard Red Winter	7.892	3.522	-4.37	-55%
Soft Red Winter	3.751	1.296	-2.46	-65%
Hard Red Spring	1.660	1.346	-0.31	-19%
White	1.854	1.086	-0.77	-41%
Durum	.520	.396	-0.12	-24%
TOTAL	15.677	7.646	-8.03	-51%

It is of interest to note that by this time in our wheat marketing year, we historically have booked 60 percent of our exports. Now, 18 weeks into the marketing year, we have booked approximately 25 percent of the USDA projection. This may be the first year since 1971 when domestic use is larger than overall exports.

What has caused this export decline? A number of factors have come together to cut U.S. exports. The value of the dollar has caused U.S. wheat to be more expensive to importers and world economic stagnation and debt problems have hindered the economic development of many of our best customers. In addition, world wheat prices have been below those of the United States. Government trade policy, especially past embargoes and current debate over import restraints also hampers U.S. export sales. And finally, the imposition of cargo preference requirements to the blended credit program destroyed one of our better export initiatives. Worse, the ever changing U.S. government policies, such as cargo preference, have eroded the success of some of our programs overseas.

We are pleased to see the government move to solve some of these problems. Coordinated efforts to reduce the value of the dollar will over time result in increased demand for U.S. farm products. Initiatives proposed in Seoul concerning IMF-World Bank lending could be bullish for U.S. exports should these efforts result in stronger economies in developing nations. However, the recent action by the House indicates cargo preference requirements may be with us for some time.

The USDA has attempted to fight the problem of our prices being above those of other major exporters and to counter the subsidies they employ through the EEP.

On May 16, Secretary Block announced a new program designed to increase U.S. agricultural exports and to fight the subsidization of exports by our competitors. Members of Congress had been pressing for an export enhancement type program, especially after the halting of sales under the blended credit program due to cargo preference requirements.

In announcing the program Mr. Block stated that any export sales under the EEP must meet the following criteria. First, additionality. The EEP sale must result in increased U.S. exports sales above what would have occurred in the absence of a program.

Second, each proposal must be targeted on a specific market. And three, the proposal should not increase budget outlays.

The following table provides a review of the initiatives announced so far:

Algeria	June 4	1 mmt wheat
Egypt	July 2	600,000 mt wheat flour
Egypt	July 26	500,000 mt wheat
Yemen	August 20	50,000 mt wheat flour
Yemen	September 6	100,000 mt wheat
Morocco	September 30	1.5 mmt wheat

(As of this date, only EEP sales to Egypt have been consumated.)

Has the EEP in fact helped U.S. wheat producers? Being an economist, I am obliged to make a short and a long term assessment. Certainly the recent wheat flour sales meet the criteria of additionality. As for wheat, we must wait to see the end of the year imports by source of the targeted nations before that determination can be safely made. While only Egypt has obtained wheat and flour under the EEP since its May inception, I am confident that the targeted nations will try to utilize the program to at least some degree.

In the long-run, the EEP could be very benficial to U.S. producers so long as the government expands and maintains the program for a sustained period, thus forcing our competitors to correct their export practices. In response to the EEP, the EEC has aggressively sought markets in Africa and Yemen. A recent flour tender by Yemen was successfully bid by the EEC at $175/ton, C&F, which is about

$3.00 per ton below the U.S. bids. The EEC has also established a line a credit to Morocco of $500,000 and recently sold them 110,000 mt of wheat at prices between $104.00 and $105.75 per ton C&F. In comparison, U.S. soft wheat prices at the Gulf are running approximately $115.00 per ton FOB.

The EEC was forced to increase their restitution levels in order to complete the sales to Yemen and Morocco. In addition, they have increased restitution levels to Algeria and other nations. A continued EEP, in conjunction with a lower U.S. dollar, will contribute to larger restitution payments in the foreseeable future thereby increasing the cost of the Common Agricultural Policy (CAP). Whether the Europeans are committed to continued heavy subsidization of the CAP will determine when they are ready to come to the bargaining table.

The EEC type of export subsidization is one which the EEP is designed to end. Thus U.S. Wheat welcomes the EEP program. The USDA has been willing to work with exporters in order to have the program work as smoothly as possible. But the program is too restricted in that only nations in the Mediterannean basin have been targeted, and many of our best customers and markets are being excluded. There are a number of nations which currently fit the USDA imposed criteria that could be named for the EEP. We urge the USDA to expand their list of targeted nations to include these countries.

Traditional customer reaction to the program is of major concern to American wheat producers. Some in the trade have claimed that the Soviet Union failed to purchase the minimum 4 mmt under the long term grain agreement due to the fact they are ineligible to take advantage of the program. Certainly price considerations were a major factor in their failure to purchase the remaining 1.1 mmt during the agreement year (October-September).

In addition, the USDA policy of using the program in only EEC markets causes us deep concern. A good example of another country with an export subsidy that is harmful to U.S. wheat producers is Canada.

It is a current policy of the Canadian government to pay 79 percent of the cost of moving a farmers wheat to an export location. The attached table provides transportation costs borne by producers in the U.S. and Canada of moving their wheat to the coast. The Canadian government payment of a majority of the transportation cost provides the Canadian Wheat Board with a price advantage not available under the U.S. free market system. U.S. Wheat Associates has filed a Section 305 case in regard to this practice and the USTR is currently reviewing our petition. No matter what the outcome of the 305 filing, this is an example of an export practice by a competitor nation against which the USDA should take action through the use of the EEP.

There are several suggestions that I would propose in regard to the EEP and export programs in general. Initiatives should be made to all nations that now fall under the criteria set out by Secretary Block. The USDA should review the exporting practices of our competitors and utilize the EEP where appropriate. Canada is a perfect example.

Some broader export program needs to be established if the EEP remains targeted. Such a program need be implemented if we hope to maintain market share in some nations. For example, the Philippines purchase 100 percent of their wheat from the U.S. and Korea and Nigeria buy almost exclusively from the U.S. It is difficult to provide a price cut to other markets, and not to those who buy U.S. wheat exclusively. While U.S. Wheat does not endorse a particular program, a possible system of providing extra wheat for our best customers would be in order. For example, a country buying 100 percent of its needs from the U.S. could receive a certain percentage as a bonus from the CCC once they have purchased their minimum normal quantity.

The funding of an intermediate credit program would certainly be advantageous for American grains. Such a 3 to 10 year credit program would bridge the gap that currently exists between U.S. government trade programs. We are pleased to see the Agriculture Committee has again provided authorization for such a credit program.

Mr. Chairman, the Committee has foreseen many of the problems we have discussed. Your concern over the operation of the export bonus program and its effect on all our customers is documented in Section 1125 of the farm bill. We urge the Committee to closely review the program, and work with the USDA to see that your intentions are manifested in sales of U.S. grains. However, we must assure that the EEP does not cause other customers to turn away from the U.S. wheat producers need to be able to utilize a number of programs to meet the specific needs of our customers.

In summary, Mr. Chairman, the export enhancement program appears to be working as set forth by the Secretary for the nations so far targeted. USDA has shown flexibility in meeting the specific needs of importers and exporters. But the program needs to be expanded to additional importers and against all competitors who subsidize exports. We must also set new criteria on the EEP, or establish a separate export program to provide for our best customers.

Mr. Chairman, I would be pleased to answer any questions at the appropriate time.

(Attachment follows:)

WHEAT RATES
FROM POINTS IN CANADA
TO VANCOUVER, BC
AND
FROM POINTS IN ND & MT
TO PORTLAND & SEATTLE
July 1, 1985

	Rate Charged CANADIAN PRODUCER			Rate Charged USA PRODUCER			
	SINGLE CAR			52-CAR		SINGLE CAR	
FROM:	METRIC TON	BUSHEL	FROM:	SHORT TON	BUSHEL	SHORT TON	BUSHEL
Lauder, MB	$12.00	32.7¢	Minot, ND	$36.80	110¢	$44.20	133¢
Estervan, SK	$10.24	27.9¢	Williston, ND	$34.20	103¢	$41.40	124¢
Rockglen, SK	$ 9.44	25.7¢	Opheim, MT	$33.80	101¢	$39.20	118¢
Weyburn, SK	$ 9.84	26.8¢	Wolf Point, MT	$32.20	97¢	$39.20	118¢
Mankota, SK	$ 9.65	26.3¢	Glasgow, MT	$31.20	94¢	$39.60	119¢
Meyronne, SK	$ 8.96	24.4¢	Hinsdale, MT	$30.20	91¢	$39.00	117¢
Notukeu, SK	$ 8.46	23.0¢	Malta, MT	$28.60	86¢	$37.20	112¢
			Havre, MT	$25.20	76¢	$33.00	99¢

Canadian grain rates are quoted in dollars per metric ton of 2204.6 lbs. A metric ton consists of 36.74 bushels of wheat. USA grain rates are quoted in cents per hundred weight, however, to develop a more accurate comparison, all rates have been reduced to cents per bushel of 60 lbs. per bushel.

The Canadian rates reflect only the portion charged against the producer's transportation cost and represents only 30.4% of the total, as the Canadian government picks up the remaining 69.6%. For example, the $12.00 per ton rate show from Lauder represents only 30.4% of the total transportation cost from Lauder to Vancouver, BC as the Canadian government picks up the remaining $27.46 per metric ton, or 69.6% of the total cost of $39.46 per ton. Effective August 1, 1985, Canadian rates will increase 11%, but the subsidy to the producer will be increased by about 22%. For example, the producer at Lauder will be charged only $9.35 per ton, while the government will pick up $34.35 per ton of a total rate of $43.70, meaning the producer's portion will be reduced to only 21.4% of the total cost, while the government's portion will be increased to 78.6%.

USA producers absorb the entire transportation cost shown opposite each of the representative shipping points in ND or MT. The USA rates are not scheduled to change in the foreseeable future.

AUTHORITY: CFAW 4310 - BN 4022

Mr. Bedell. Thank you very much, Mr. Fritz.

I want to commend the panel for the way you have held your time down. I think you have said a lot and you have said it in a very short amount of time.

Mr. Roberts.

Mr. Roberts. Yes, thank you, Mr. Chairman.

I would like to state for the record that Mr. Fritz used to work for the Wheat, Soybeans, and Feed Grains Subcommittee, in regard to that voice of reason and calm, Mr. Marlenee from Montana, who is always in the forefront of justice and equality for his wheat growers. He left the subcommittee to work for the National Association of Wheat Growers, Mr. Chairman, and now of course is working for U.S. Wheat.

It's good to have you back before the subcommittee, Dick. It's always good to have a bucket toter here who knows how much water is spilled and why and what we are about, so welcome to the subcommittee.

Mr. Fritz. Thank you, Mr. Roberts. I must say it was easier to sit back where Gary is than up front here.

Mr. Roberts. We'll be easy on you.

I would like to go to the testimony of Mr. Laserson. I noted with interest—just a personal comment—on page 2, the fourth paragraph down, "if the export problem is not solved in a way that will keep the unit price of grain affordable for the public at large," we won't make any progress. May I offer the observation that if we do not make that unit price of grain profitable for the farmer in particular, I think the public at large is going to be in a world of trouble.

Would you have any comments on that? I think the answer is "Yes."

Mr. Laserson. Obviously, if the farmer does not have a profitable business, the rest of this industry does not either. I think that profit might well be determined in terms of yield per acre, not necessarily in price per bushel. I think that if we don't get away from this business of attaching income to price per bushel, that we are going to keep falling into the same hole we've been in for several years.

Mr. Roberts. I would like to explore that a little bit further but I don't think we have the time to do that right now. I just hope we don't have a sudden freeze in Kansas where that theory will be put to test. The only way we have kept in business is to increase the yield.

I want to compliment you on your comment on page 3, where you say, "We have two signs in our store windows: The first says to customers, 'Do not buy now because later the price will be cheaper.' The second says, 'If you are a good customer now, you will not get the benefit of our price reduction.' " I think that pretty well sums up the dilemma and the frustration we face on the subcommittee and the full committee. You go on to say that, "We cannot escape from the conclusion that our policy is a major cause of what is going on."

I am a little confused about our policy. What do you mean by that, in terms of specifics? I am going to lead you a little bit. Are you including all those macroeconomic variables that our witnesses usually come up here with, that is, the deficit, et cetera, et cetera, in terms of our policy?

Mr. LASERSON. No, sir. The policy I'm restricting myself to here is this BICEP Program, by itself.

Mr. ROBERTS. I see.

Mr. LASERSON. I think that once this BICEP Program was announced and that became U.S. policy, that our customers reacted to it.

Mr. ROBERTS. How would you modify it, then, to get the policy turned around?

Mr. LASERSON. I would favor a two-step approach. Clearly I believe that the loan has to come down in order to send the message around the world that the United States is serious about competing in agriculture, in order to remove the umbrella, but I think we also have to have a bridge between now and then. I think we have to get the international price down immediately to whatever level the Congress decides is appropriate in the loan. I am making an assumption that the loan level somehow or another will be lowered in the 1985 farm bill. Whatever that level is I think should be put into effect for export sales across the board as of right now.

Mr. ROBERTS. Well, we rachet down that loan over a 5-year period under the committee bill, and there are those of us on the committee who feel that that represents sort of a "Death Valley Days" that we have to march throughout in farm country; that in order to get market-competitive by 1990 and compete with the Argentinians, that that gulf price would be somewhere around $2.50, $2.60. Back at the country elevator it comes down to $2.10 or $2.20, and we'll be market-competitive, all right. We won't have anybody out there.

I much prefer something like the marketing loan concept, where we could get there from here, if you please. Have you taken a look at that? Have you taken a look at the marketing loan?

Mr. LASERSON. Yes, sir. The marketing loan concept would do much of what I think should be done. There is a difficulty in it, of course, which is its cost relative to an expert program.

Mr. ROBERTS. Well, it's a little bit like, "Pay me now or pay me later," and I think over the long term that those costs would be much, much greater.

I share the concern of the rest of the witnesses in regards to what the BICEP Program is or is not. I especially want to agree with Mr. Hauck in his comments. I don't know if we are talking about a program to match the unfair trading practices or to get to the level playing field—that's the paragraph everybody uses in their speech, either on the floor or back home—or whether it's a State Department tool to achieve a better relationship when we go into the GATT negotiations, or if it's a first step for a massive export PIK, or what it is. I think we have to get that worked out.

Rather than BICEP, I think we could call it a GATT approach. We could just call it the GATT Program. In my personal view it's called GATT because we would simply call it, maybe, "Get After Those Turkeys" and really get the thing moving.

I don't have any further questions, except to say I really appreciate some of the specific suggestions and recommendations that you have had for us to suggest to the USDA so we can have a better policy tool. Thank you.

Mr. **Bedell**. Mr. Evans.

Mr. **Evans** of Iowa. Thank you, Mr. Chairman.

I would like to get a little better understanding of exactly how a successful sale evolves in this program. I take note of Mr. Fritz' table there of the six nations or six initiatives that have been approved—I guess it's not six nations, I guess it's four—but that only one sale has really been consummated. Now just how does this work from the standpoint of someone like you, Mr. Laserson? I think you have been the only successful one to push one to conclusion.

Mr. **Laserson**. No.

Mr. **Evans** of Iowa. Perhaps I'm wrong in that, but how does one proceed to get first an initiative announced, and then how does one proceed within that initiative to conclude a sale and a delivery? Can you expand on that a little bit?

Mr. **Laserson**. Well, Mr. Evans, with regard to the last comment that you made, I have no idea how the initiative gets approved.

Mr. **Evans** of Iowa. It does not come from you?

Mr. **Laserson**. Absolutely not; yes.

Mr. **Evans** of Iowa. Did an initiative come from any of you specifically?

Mr. **Fritz**. Mr. Evans, we have suggested particular countries that the USDA should target for these initiatives, but they have not necessarily always been approved.

Mr. **Evans** of Iowa. Well, are you aware of people that have come in to the Department with a specific proposal and said, "I would like to have this approved," and does that ever get anywhere?

Mr. **Laserson**. We have made proposals. We have had firm bids in hand, in fact, to do business.

Mr. **Evans** of Iowa. Yes.

Mr. **Laserson**. Those have been, so far as I know, ignored. I can't say for sure they have been studied.

Mr. **Evans** of Iowa. So, somewhere out of the bureaucracy an initiative evolves, based on a variety of considerations, and this comes to you as a sort of a surprise, and then you are told, "Well, go out and see if you can conclude it."

Mr. **Laserson**. No; I repeat, we don't know how the initiative is arrived at, but once it is arrived at, it is made known to the public, to everybody concerned.

Mr. **Evans** of Iowa. Yes.

Mr. **Laserson**. It is eventually made known even to the prospective buying country.

Mr. **Evans** of Iowa. Yes.

Mr. **Laserson**. Now when he knows about it, when they know about it, they presumably will schedule a tender.

Mr. **Evans** of Iowa. Yes.

Mr. **Laserson**. By a tender, they simply request offers from the various export firms.

Mr. **Evans** of Iowa. Yes.

Mr. **Roberts**. Would the gentleman yield on that point?

Mr. **Evans** of Iowa. I would be glad to.

Mr. ROBERTS. Can you give a reasonable percentage guesstimate as to the rationale as to where we make these sales?

Mr. LASERSON. You mean where the initiatives come from?

Mr. ROBERTS. Yes; I mean——

Mr. LASERSON. No, sir. I have no idea. I know the criteria that have been listed, as you do, but I don't know what the decisionmaking process is.

Mr. ROBERTS. And you couldn't venture a guess, a wild guess?

Mr. LASERSON. It would be very wild. [Laughter.]

Mr. ROBERTS. But it's not to move the grain?

Mr. LASERSON. I don't think that this program really and truly is designed to move grain, because it couldn't work this way if it were. [Laughter.]

Mr. ROBERTS. I thank the gentleman for yielding.

Mr. BEDELL. Would the gentleman yield?

Mr. EVANS of Iowa. Of course.

Mr. BEDELL. Mr. Laserson, you are on the advisory committee.

Mr. LASERSON. Yes, sir.

Mr. BEDELL. What do you do? [Laughter.]

What does the advisory committee do?

Mr. LASERSON. I listen.

Mr. BEDELL. Well, that doesn't sound like what I would expect you to do, Mr. Laserson. Doesn't the advisory committee have anything to say about any of this? What's their purpose? What do they tell you you're supposed to do, besides listen?

Mr. LASERSON. In fairness, Mr. Chairman, we have only had one meeting, where the program was explained to us. By the time the explanation was over, the meeting was over, and the second meeting will be tomorrow. [Laughter.]

Mr. BEDELL. I thank the gentleman for yielding.

Mr. EVANS of Iowa. Well, I guess I have the time, but I'm so overwhelmed at this point, I don't know what to ask next. [Laughter.]

Mr. LASERSON. Mr. Evans, I just want to correct one other thing. Continental Grain has not been the only firm to sell. There has actually been—there is only one country that has bought. That part is true——

Mr. EVANS of Iowa. All right.

Mr. LASERSON [continuing]. But there have been four or five firms that have sold, including the flour.

Mr. EVANS of Iowa. Have any of these other countries under any of these other initiatives issued tenders?

Mr. LASERSON. Algeria issued a tender, actually submitted some bids that were rejected in the process.

Mr. EVANS of Iowa. OK.

Mr. FRITZ. Mr. Evans.

Mr. EVANS of Iowa. Yes.

Mr. FRITZ. On page 5 of my testimony I list some of the offers that were made by the Europeans. In fact, they sold, the European Community sold wheat to Morocco recently, after they were designated as an Export Enhancement Program; they sold wheat to Algeria, after Algeria was nominated as an Export Enhancement Program. The Australians have been in Yemen and also Egypt, so all of those countries have in fact bought wheat.

Mr. Evans of Iowa. So, when a tender is issued, this goes to all sources of grain, and we have not been successful, I guess, in getting any of those contracts.

Mr. Laserson. Well, Algeria, I repeat, has made a bid to international grain companies for American wheat. Once we have this bid, we have to go to USDA for approval——

Mr. Evans of Iowa. Right.

Mr. Laserson [continuing]. And in that particular case, USDA considered that the bids were too low and rejected the bids.

Mr. Evans of Iowa. And then the French underbid you?

Mr. Laserson. That's correct.

Mr. Evans of Iowa. OK. May I have an additional 2 minutes to pursue this, Mr. Chairman?

Mr. Bedell. Yes; of course you can have extra time.

Mr. Evans of Iowa. So, let's say that a tender is issued and then you have to come to the USDA to determine what sort of a subsidy they will allow before you can make a bid. Is that right?

Mr. Laserson. Before I have a firm business, that's correct, if it's American wheat.

Mr. Evans of Iowa. Can you get a tentative bid and go to USDA and say, "Hey, can we match this?"

Mr. Laserson. We can get a bid subject to USDA approval; yes.

Mr. Evans of Iowa. Subject to USDA approval. Is that the history of this one instance, that you had a tentative bid and they would not approve that, and so the sale was made to the French?

Mr. Laserson. It happened over a period of days, the way you have described it.

Mr. Evans of Iowa. So, in essence, their estimate of what the price should be, proved erroneous in terms of making a sale?

Mr. Laserson. In terms of making the sale; yes. In terms of what their criteria were, perhaps not.

Mr. Evans of Iowa. Yes; and their criteria were that in the recent days the world wheat market was such that you were undercutting that market more than was warranted, in their judgment. Is that essentially what it comes down to?

Mr. Laserson. The bid that we had did not meet the criteria of USDA in providing the bonus. Now those criteria go across the board. They cover a lot of areas.

Mr. Evans of Iowa. Yes; the bonus. What do you mean by "a lot of areas"?

Mr. Laserson. Well, it's not only a matter of meeting what the competition might be. It's also a matter of making sure the price is such that it's not subject to cargo preference, that the price is such that it meets all the requirements of the various committees that meet to decide these things.

Mr. Evans of Iowa. OK. Thank you very much, Mr. Chairman.

Mr. Bedell. Mr. Laserson, we did at one time have, I believe, an export bonus program for wheat to keep us competitive. Is that correct?

Mr. Laserson. You mean we had a subsidy program——

Mr. Bedell. In the past.

Mr. Laserson [continuing]. That was paid in kind across the board? Yes, sir.

Mr. Bedell. Yes; when was that?

Mr. LASERSON. That was prior to 1973.

Mr. BEDELL. And were you involved in that at all?

Mr. LASERSON. Yes, sir. Involved as an officer with Continental Grain Co.

Mr. BEDELL. I'm sorry?

Mr. LASERSON. Involved as part of the grain trade; yes.

Mr. BEDELL. And how did it work, in your opinion?

Mr. LASERSON. That worked fine. It was simply a matter of a subsidy across the board for all nations. It could be either announced or it could be bid because they did it both ways—either one would work--but what it did was, it removed the discriminatory feature that this program has.

Let me state, please, if I may, Mr. Chairman, I am knowledgeable of the fact that several countries around the world who are today not buying American wheat would buy American wheat if they were not discriminated against. I disagree with the GAO, who said that the wheat demand is inelastic. I believe that there is some elasticity, and I believe we will sell more wheat if we remove the discriminatory feature of this program.

Mr. BEDELL. If we had an across-the-board program, you mean?

Mr. LASERSON. Yes, sir. Yes. I have just been overseas and I can specify at another time at least four countries that would buy more wheat if we didn't have this problem.

Mr. BEDELL. We do have in the farm bill an across-the-board bonus program. Have you had a chance to look at that or not?

Mr. LASERSON. You mean in this 1985——

Mr. BEDELL. The bill, even though they took out the really good bonus program we had, we still have a bonus program in it that came out of this subcommittee. Have you had a chance to look at that?

Mr. LASERSON. Mr. Chairman, I have not had a chance to keep up with all the changes in the program as they have come across.

Mr. BEDELL. Would you take a look at what is in the bill, what is still in the bill in regard to trying to make us across-the-board competitive in exports, and I for one would appreciate any suggestions you might have as to how we might make that more effective.

Mr. EVANS of Iowa. Will the gentleman yield——

Mr. BEDELL. I yield to the gentleman from Iowa.

Mr. EVANS of Iowa [continuing]. Just for a brief comment? I know it's very confusing to know what is still in the farm bill and what is not, but the trade title as printed in the Union Calendar has been little changed, and that is the title that the chairman is speaking of, so there is a good reference and checkpoint. I would second the chairman's suggestion. I think we, on a continuing basis, need all the advice we can get on what will help in that regard.

Thank you, Mr. Chairman.

Mr. BEDELL. And there might be some opportunity in conference, if there were specific things that we could do that would help to make that more effective.

Yes? The gentleman from Kansas.

Mr. ROBERTS. If the chairman would yield, would it be your opinion back in 1973 when China was not a food exporter and the European Common Market was not producing as much or—what—more grain than we are now, and the preembargo, days, obviously, that the export PIK across the board was a little bit different kind of equation? That's what worries me now, that we have sent those signals to our competitors to the extent they are not going to give up by any means.

Mr. LASERSON. I think, Mr. Roberts, that if we look back into prior to 1972, if we look into the late sixties, the early seventies, we would see the same kind of picture in U.S. agriculture as we see today. The numbers are bigger. They have got more zeroes behind them, but the picture is exactly the same. We had huge surpluses. We didn't know how to move it. It was at that time, as one will recall, that we agreed to subsidize wheat sales to the Soviet Union, agreed to subsidize them past the point where we needed to at that particular time, but nevertheless we had huge surpluses, as we have now. We had the same kind of picture.

Mr. ROBERTS. Well, I would agree with your comments in regard to the program. Let me just sort of go over, for the benefit of my colleagues and the witnesses, as of September 18, a summary of the United States PIK sale to Egypt about 1 month ago of 250,000 metric tons of wheat at $109.95. That was the subsidy which the USDA equated to about $21, or $2.94 a bushel. The EEC simply increased the restitution in wheat to $42 a metric ton, and I haven't quite put a pencil to it as to the subsidy per bushel, but it wasn't whether or not the supply-and-demand picture was in question, or any proximity to the markets or to quality of grain. It was just whoever was willing to subsidize the most, and it seems to me—how often do you meet? Do you meet monthly, or do you meet—in terms of this group.

Mr. LASERSON. I think it's too early to know what the formal schedule will be. I repeat, the second meeting is only tomorrow.

Mr. ROBERTS. Well, it seems to me that's a very cumbersome way to go about it, if in fact they matched us and decided that their costs—you know, they could swallow those costs, how do you respond to that in a meeting a month later? I don't——

Mr. LASERSON. Mr. Roberts, that subject is not a subject for this subcommittee to talk about at all, anyway. That's what Mr. Amstutz would call a market-sensitive issue. It's not a subject on the agenda. He is not going to disclose what subsidy level he is going to approve or what his criteria are. He made that very clear at the first meeting.

Mr. ROBERTS. Further observations will follow when we have the USDA before us, Mr. Chairman.

Mr. BEDELL. Mr. Laserson, do you have any idea whether the other people that are on your committee feel similarly, the way you do, or whether they disagree with you on this issue?

Mr. LASERSON. Well, fortunately you have at least one other member here today. I think he's on the next panel.

Mr. BEDELL. Yes.

Mr. LASERSON. I'm sure he is——

Mr. BEDELL. Have you talked to any of the other members? Surely you must be a little frustrated.

Mr. ROBERTS. When you go out for a drink afterward, it would seem to me you would have to.

Mr. LASERSON. Excuse me?

Mr. ROBERTS. I said it would seem to me you would have to share a drink afterward. Maybe you talk then.

Mr. BEDELL. Do you have any idea about what the feeling is of the other members?

Mr. LASERSON. I think that one can state that the committee, to a man, believes that this approach of an export program is wrong. We may disagree on some particulars and details but the approach we have is wrong. The discriminatory approach is counterproductive to moving American grain, period. It's not complicated.

Mr. BEDELL. What do you interpret the purpose of your committee to be? They must tell you you're supposed to do something besides listen. What is it that you think they want you to do?

Mr. LASERSON. I suspect that that was a condition of getting the assistance of this 2 billion dollars' worth of American grain to be competitive, that an advisory committee be formed from the trade.

Mr. BEDELL. I don't understand your answer.

Mr. LASERSON. The purpose is, I don't think it's a Department of Agriculture request to have this committee.

Mr. BEDELL. But are you charged with any duties or responsibility, or is there something that you're supposed to do?

Mr. LASERSON. I don't know what it is, Mr. Chairman. [Laughter.]

Mr. ROBERTS. Would the chairman yield further?

Mr. BEDELL. Sure.

Mr. ROBERTS. I think that the witness has put his finger on it. [Laughter.]

I'm not sure which finger but I won't go into that. There is no way on God's green Earth that this program is going to work, even on a selective basis or a targeting basis, with State, Treasury, OMB, and others making these market-sensitive decisions. Everybody thinks it's their grain, which gets you back to the stump speech that we all make around here, that it is the farmers' grain and we're trying to get it moved so we can make a profit and provide that best unit price of grain to the consumer and all of that. But I don't see how this program is going to work if in fact we have all these other players determining, in fact, that this is probably a short-term trade policy tool to offset whatever they allege is an unfair trading practice by our competitors, and that's the end of it. I just don't see how it can work.

Mr. BEDELL. Are there any further questions?

[No response.]

Mr. BEDELL. Well, we thank you very much for your testimony. I think it has been very enlightening. Thank you very much.

Our next panel consists of Mr. Varel Bailey, immediate past president of the National Corn Growers Association; Mr. George Anselm, chairman, legislative affairs, National Corn Growers Association; and Mr. Steve Gabbert, executive vice president of the Rice Millers' Association.

I should announce that the USDA and State Department witnesses have been rescheduled for Thursday morning, October 10, at 9 a.m., in this same room. That will be the day after tomorrow at 9 a.m.

Mr. Bailey, since you're from Iowa, we'll start with you.

Mr. BAILEY. With the chairman's approval, I would like to allow Mr. Anselm to make the official statement for the Corn Growers, and then I would like to comment following him, as a member of the advisory committee.

Mr. BEDELL. All right.

STATEMENT OF GEORGE ANSELM, CHAIRMAN, LEGISLATIVE AFFAIRS, AND VICE PRESIDENT, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION

Mr. ANSELM. Thank you, Mr. Chairman, members of the subcommittee. We are certainly pleased to have the opportunity to testify here today. You have our prepared remarks, and I would like to paraphrase some of them.

Mr. BEDELL. Without objection, your entire remarks will be entered in the record.

Mr. ANSELM. Members of our organization have long advocated strong and effective agricultural export programs. Along with many other agricultural organizations, commodity groups, and agri-industry firms, we urged the consideration and implementation of a PIK Export Program during 1984 and into 1985. As a result of that collective effort, the administration committed to make available up to $2 billion in CCC-owned commodities for the U.S. Department of Agriculture to use in the Export Enhancement Program, commonly called the export PIK program. We still support that goal of an Export Enhancement Program.

On the other hand, we have been extremely disappointed and frustrated over the guidelines and regulations that the U.S. Department of Agriculture has framed in attempting to implement and operate the Export Enhancement Program. I would like to cite a few examples and some of our concerns that we have about this current situation.

There appears to be only one criterion that the USDA officials use in targeting foreign customers for the Export Enhancement Program. That criterion is simply to offset the highly subsidized export price of wheat from the European Economic Community to several north African wheat import markets. After protracted negotiations and uncertainties, Egypt finally purchased United States wheat under the Export Enhancement Program. Nevertheless, the other three countries—Algeria, Morocco, and North Yemen—have not purchased any United States wheat under the Export Enhancement Program. By using such restrictive criteria as established by USDA officials, the EEC has simply increased the level of their export subsidies to make European wheat more price-competitive than U.S. wheat under the Export Enhancement Program.

The less-than-earnest effort to sell United States wheat under the Export Enhancement Program to both Morocco and Algeria has encouraged the European Economic Community to provide up to a $70 per ton—or $1.91 a bushel—export subsidy to bring f.o.b. value of European wheat down to a reported $102 per ton—or $2.78 per bushel—price to those north African countries. With the single exception of the United States wheat sale to Egypt, the European Economic Community continues to beat any United States price competition to north African markets.

Because the USDA Export Enhancement Program is lowering the price of U.S. wheat to these selective markets in north Africa, the consequences of this limited and unspirited sales effort by USDA officials have created major competition and pricing problems for U.S. wheat—and maybe other U.S. grains—in other foreign markets.

I mentioned briefly here about what the Soviet Union has purchased, and that's all in the prepared remarks. I'll skip on down here to the lower part of page 6.

Under the terms of the U.S.-U.S.S.R. long-term grain agreement, it specifies that United States wheat and corn will be offered to the Soviet Union at prevailing and competitive international price levels. The export price at which United States wheat is offered under the restrictive USDA Export Enhancement Program has not been extended to the Soviet Union. Consequently, the potential of United States wheat export sales under the Export Enhancement Program to several markets in north Africa are smaller in volume than the actual volume which has been lost in potential wheat export sales to the Soviet Union.

Because of the significance of the Soviet market for the continued export outlet of United States corn, we must now conclude that United States corn farmers will be far better off for United States corn not to be included in the USDA Export Enhancement Program. This opinion becomes even firmer to United States corn farmers and the National Corn Growers Association if USDA officials confirm that the Soviet Union refused to purchase the agreed-upon annual minimum amount of United States wheat because the Soviet Union was refused United States wheat exports at the same competitive price levels offered to north African countries.

We would like to be unequivocally clear on this point. The National Corn Growers Association has and continues to support and advocate the goal of more broad-based, ongoing, and sustainable export enhancement initiatives. We have serious reservations about the restrictive and narrow criteria established by USDA officials in development and attempting to implement the USDA Export Enhancement Program. In addition, we will continue to have Varel Bailey to serve on the USDA EEP advisory committee to work toward achieving our goal for such export enhancement initiatives.

In conclusion, we would also like to comment that the current situation over the issue of cargo preference requirement for U.S. Government-assisted agricultural exports could well cloud and create uncertainty over the commercial nature of the USDA Export Enhancement Program. If the above concerns and reservations that we expressed did not exist, it could well develop that any such Export Enhancement Program would be severely hampered and impaired if there is not a resolution to the cargo preference dilemma facing U.S. agricultural exports today.

We appreciate this opportunity to appear before you today, and will attempt to answer any questions you have. Thank you.

[The prepared statement of Mr. Anselm and Mr. Bailey follows:]

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EXPORT ENHANCEMENT PROGRAM: A POOR PROGRAM IN PURSUIT OF AN EXCELLENT GOAL

BY

GEORGE ANSELM, CHAIRMAN FOR LEGISLATIVE AFFAIRS
& VICE PRESIDENT OF THE BOARD OF DIRECTORS

AND

VAREL BAILEY, IMMEDIATE PAST PRESIDENT
BOARD OF DIRECTORS

BEFORE

DEPARTMENT OPERATIONS, RESEARCH AND FOREIGN AGRICULTURE
SUBCOMMITTEE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ON

OCTOBER 8, 1985

MR. CHAIRMAN AND COMMITTEE MEMBERS: WE ARE PLEASED TO HAVE AN OPPORTUNITY TO TESTIFY TODAY ON THE RECENTLY DEVELOPED AND IMPLEMENTED EXPORT ENHANCEMENT FOR AGRICULTURAL EXPORT. APPEARING BEFORE YOU TODAY ARE THE FOLLOWING OFFICERS OF THE BOARD OF DIRECTORS OF THE NATIONAL CORN GROWERS ASSOCIATION: GEORGE ANSELM, A CORN FARMER FROM TAYLORVILLE, ILLINOIS, AND VAREL BAILEY, A CORN FARMER FROM ANITA, IOWA.

AS MANY OF YOU KNOW, OUR ORGANIZATION REPRESENTS CORN FARMERS IN SEVENTEEN AFFILIATED MEMBER STATES: COLORADO, ILLINOIS, INDIANA, IOWA, KANSAS, KENTUCKY, MARYLAND, MICHIGAN, MINNESOTA, MISSOURI, NEBRASKA, NORTH CAROLINA, OHIO, PENNSYLVANIA, VIRGINIA AND WISCONSIN. IN ADDITION, THERE ARE INDIVIDUAL CORN GROWER MEMBERS IN ALL FORTY-EIGHT (48) CONTINENTAL STATES.

MEMBERS OF OUR ORGANIZATION HAVE LONG ADVOCATED STRONG AND EFFECTIVE AGRICULTURAL EXPORT PROGRAMS. ALONG WITH MANY OTHER AGRICULTURAL ORGANIZATIONS, COMMODITY GROUPS AND AGRI-INDUSTRY FIRMS, WE URGED THE CONSIDERATION AND IMPLEMENTATION OF A PIK EXPORT PROGRAM DURING 1984 AND INTO 1985. AS A RESULT OF THAT COLLECTIVE EFFORT, THE ADMINISTRATION COMMITTED TO MAKE AVAILABLE UP TO TWO (2) BILLION DOLLARS IN CCC-OWNED COMMODITIES FOR THE U.S. DEPARTMENT OF AGRICULTURE TO USE IN THE "EXPORT ENHANCEMENT PROGRAM" -- COMMONLY CALLED THE EXPORT PIK PROGRAM. AND, WE STILL SUPPORT THE GOAL OF AN EXPORT ENHANCEMENT PROGRAM.

ON THE OTHER HAND, WE HAVE BEEN EXTREMELY DISAPPOINTED AND FRUSTRATED OVER THE GUIDELINES AND REGULATIONS THAT THE U.S. DEPARTMENT OF AGRICULTURE HAS FRAMED IN ATTEMPTING TO IMPLEMENT AND OPERATE THE "EXPORT ENHANCEMENT PROGRAM." AS YOU KNOW, VAREL BAILEY SERVES ON THE USDA ADVISORY COMMITTEE FOR THE EXPORT ENHANCEMENT PROGRAM (EEP), AND WILL CONTINUE TO SERVE ON THAT COMMITTEE IN ORDER TO HAVE -- HOPEFULLY -- INPUT AND IMPACT ON REFINING THE "EXPORT ENHANCEMENT PROGRAM" INTO A MEANINGFUL AND EFFECTIVE EXPORT INITIATIVE. IN THIS REGARD, WE HAVE ATTACHED AN AUGUST 15, 1985, NEWS RELEASE FROM THE NATIONAL CORN GROWERS ASSOCIATION ABOUT THE INITIAL AND ONLY MEETING OF THE EEP ADVISORY COMMITTEE THAT A MAJORITY OF THE INDUSTRY ADVISORY MEMBERS ENDORSED.

FOR THE PURPOSE OF OUR STATEMENT TODAY, WE WOULD SIMPLY LIKE TO REITERATE THE VIEWS AND OPINIONS OF THE MAJORITY OF THE INDUSTRY MEMBERS SERVING ON THE EEP ADVISORY COMMITTEE MADE ON AUGUST 15, 1985:

> THE FACT THAT THE DETAILED MECHANISMS TO IMPLEMENT THE EXPORT ENHANCEMENT PROGRAM ARE COMING ON LINE IS ENCOURAGING. HOWEVER, THE COMMITTEE MEMBERS, VAREL BAILEY, IMMEDIATE PAST PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, IOWA; ERV FRIEHE, VICE CHAIRMAN, U.S. WHEAT ASSOCIATES, NEBRASKA; FRED KERR, FARMER, KANSAS STATE SENATOR, KANSAS; RICHARD E. BELL, CHAIRMAN, AGRICULTURE & TRADE POLICY COMMITTEE, ARKANSAS; T.L. "SAM" IRMEN, FIRST VICE PRESIDENT, NATIONAL GRAIN & FEED ASSOCIATION, OHIO; AND MYRON R. LASERSON, PRESIDENT, NORTH AMERICAN EXPORT GRAIN ASSOCIATION, NEW YORK, POINTED OUT THE TIME OF UNCERTAINTY BETWEEN ANNOUNCEMENT AND IMPLEMENTATION HAS BEEN COSTLY TO U.S. AGRICULTURE BECAUSE OF DELAYED PURCHASES BY THE ONLY TWO FOREIGN BUYERS.
>
> COMMITTEE MEMBERS ENCOURAGED BROADENING THE SCOPE OF THE PROGRAM TO MORE COUNTRIES AND MORE COMMODITIES. IN ADDITION, PLANS TO MAKE THE PROGRAM MORE FLEXIBLE TO MOVE MORE QUICKLY WERE PRESENTED. THESE PLANS INCLUDED WAYS FOR OUR REGULAR CUSTOMERS TO PARTICIPATE: A PROGRAM TO CAPITALIZE ON THE GROWING ETHANOL INDUSTRY; A PREMIUM EXPORT GRAIN QUALITY PROGRAM; AND, WAYS THAT COMMERCIAL EXPORTERS CAN INITIATE SALES.
>
> THE EXPORT ENHANCEMENT PROGRAM HAS TWO BILLION DOLLARS OF CCC-OWNED COMMODITIES TO USE OVER THE NEXT THREE YEARS. THIS COULD INCREASE U.S. AGRICULTURAL EXPORTS BY MEETING FOREIGN COMPETITIVENESS AND COUNTERING UNFAIR INTERNATIONAL TRADE PRACTICES. ACCORDING TO THE USDA CHAIRMAN OF THE EEP COMMITTEE, CRITERIA FOR THE PROGRAM ARE:
>
> (1) SALE MUST RESULT IN ADDITIONALITY TO THE WORLD
>
> (2) SALE MUST BE POSITIVE TO THE U.S. ECONOMY
>
> (3) SALE MUST BE COMMERCIAL
>
> (4) OVERALL PROGRAM MUST BE BUDGET NEUTRAL

(5) SALE MUST COINCIDE WITH OVERALL INTERNATIONAL TRADE POLICY OF THE U.S. AND SUPPORTIVE OF THE STRATEGY IN ANTICIPATION OF THE UPCOMING MULTILATERAL ROUND OF INTERNATIONAL TRADE NEGOTIATIONS

(6) SALE MAY BE PART OF A COMMERCIAL CREDIT PACKAGE TO A PARTICULAR COUNTRY

(7) SALE MUST HAVE U.S. GOVERNMENT INTERAGENCY CLEARANCE

THE ADVISORY COMMITTEE POINTED OUT THAT THE RESTRICTIVE CRITERIA FOR THE PROGRAM MAY PREVENT IT FROM DEALING ADEQUATELY WITH THE ENORMOUS AND GROWING INVENTORY OF AGRICULTURAL COMMODITIES.

WE ARE EVEN STRONGER IN OUR CONVICTION THAT THE "RESTRICTIVE CRITERIA" FOR THE EXPORT ENHANCEMENT PROGRAM MAY NOT ONLY DOOM ANY POSSIBILITY OF SUCCESS WITH THE PROGRAM; RATHER, THE EEP PROGRAM ITSELF MAY WELL JEOPARDIZE VARIOUS U.S. GRAIN EXPORT OPPORTUNITIES TO OTHER MARKETS. LET US CITE SEVERAL CONCERNS THAT WE HAVE ABOUT THE CURRENT SITUATION WITH USDA "EXPORT ENHANCEMENT PROGRAM."

OFFICIALS OF THE U.S. DEPARTMENT OF AGRICULTURE (USDA) HAVE ONLY INCLUDED WHEAT AS A BONUS COMMODITY FOR INCLUSION IN THE "EXPORT ENHANCEMENT PROGRAM." THERE APPEARS TO BE ONLY ONE CRITERION, HOWEVER, THAT USDA OFFICIALS USE IN ~~MARKETING~~ TARGETING FOREIGN CUSTOMERS FOR THE "EXPORT ENHANCEMENT PROGRAM." THAT CRITERION IS SIMPLY TO OFFSET THE HIGHLY SUBSIDIZED EXPORT PRICE OF WHEAT FROM THE EUROPEAN ECONOMIC COMMUNITY TO SEVERAL NORTH AFRICAN WHEAT IMPORT MARKETS. AFTER PROTRACTED NEGOTIATIONS AND UNCERTAINTIES, EGYPT FINALLY PURCHASED U.S. WHEAT UNDER THE "EXPORT ENHANCEMENT PROGRAM." NEVERTHELESS, THE OTHER THREE COUNTRIES -- ALGERIA, MOROCCO AND

NORTH YEMEN -- HAVE NOT PURCHASED ANY U.S. WHEAT UNDER THE "EXPORT ENHANCEMENT PROGRAM." BY USING SUCH RESTRICTIVE CRITERIA AS ESTABLISHED BY USDA OFFICIALS, THE EUROPEAN ECONOMIC COMMUNITY HAS SIMPLY INCREASED THE LEVEL OF THEIR EXPORT SUBISIDIES TO MAKE EUROPEAN WHEAT MORE PRICE COMPETITIVE THAN U.S. WHEAT UNDER THE "EXPORT ENHANCEMENT PROGRAM."

THE LESS THAN EARNEST EFFORT TO SELL U.S. WHEAT UNDER THE "EXPORT ENHANCEMENT PROGRAM" TO BOTH MOROCCO AND ALGERIA HAS ENCOURAGED THE EUROPEAN ECONOMIC COMMUNITY TO PROVIDE UP TO A $70.00 PER TON (OR $1.91 PER BUSHEL) EXPORT SUBSIDY TO BRING FOB VALUE OF EUROPEAN WHEAT DOWN TO A REPORTED $102.00 PER TON (OR $2.78 PER BUSHEL) PRICE TO THOSE NORTH AFRICAN COUNTRIES. WITH THE SINGLE EXCEPTION OF THE U.S. WHEAT SALE TO EGYPT, THE EUROPEAN ECONOMIC COMMUNITY CONTINUES TO BEAT ANY U.S. PRICE COMPETITION TO NORTH AFRICAN MARKETS.

BECAUSE THE USDA "EXPORT ENHANCEMENT PROGRAM" IS LOWERING THE PRICE OF U.S. WHEAT TO THESE SELECTIVE MARKETS IN NORTH AFRICA, THE CONSEQUENCES OF THIS LIMITED AND UNSPIRITED SALES EFFORT BY USDA OFFICIALS HAVE CREATED MAJOR COMPETITION AND PRICING PROBLEMS FOR U.S. WHEAT -- AND MAYBE OTHER U.S. GRAINS -- IN OTHER FOREIGN MARKETS.

AS WE ALL KNOW, THE SOVIET UNION ONLY PURCHASED 2.9 MILLION TONS (OR 107 MILLION BUSHELS) OF U.S. WHEAT IN THE OCTOBER 1, 1984, TO SEPTEMBER 30, 1985, YEAR. THE SOVIET UNICN, UNDER THE BILATERAL

U.S.-USSR LONG TERM GRAIN AGREEMENT, IS OBLIGATED TO PURCHASE A MINIMUM OF 4 MILLION TONS (OR 147 MILLION BUSHELS) OF WHEAT AND 4 MILLION TONS (OR 157 MILLION BUSHELS) OF CORN EACH YEAR. IN ADDITION, THE SOVIET UNION CAN SUBSTITUTE A PURCHASE OF UP TO 500,000 TONS OF SOYBEANS FOR EITHER A MILLION TONS OF EITHER CORN OR WHEAT.

ALL THE WHILE THE SOVIET UNION REFUSED TO PURCHASE THE ADDITIONAL 1.1 MILLION TONS (OR 40 MILLION BUSHELS) OF U.S. WHEAT, IT MUST BE CLEARLY UNDERSTOOD THAT THE SOVIET UNION PURCHASED ALMOST 16 MILLION TONS (OR 630 MILLION BUSHELS) OF U.S. CORN DURING THE OCTOBER 1, 1984, TO SEPTEMBER 30, 1985, PERIOD. WE ARE CONVINCED THAT THE SOVIET UNION PURCHASED THE MINIMUM -- AND EVEN MORE -- U.S. CORN FOR VARIOUS REASONS COMPARED TO THE SOVIET UNION PURCHASE SHORTFALL ON U.S. WHEAT. ONLY U.S. WHEAT HAS BEEN INCLUDED IN THE USDA "EXPORT ENHANCEMENT PROGRAM" -- NOT U.S. CORN. UNDER THE TERMS OF THE US-USSR LONG TERM GRAIN AGREEMENT, IT SPECIFIES THAT U.S. WHEAT AND CORN WILL BE OFFERED TO THE SOVIET UNION AT PREVAILING AND COMPETITIVE INTERNATIONAL PRICE LEVELS. THE EXPORT PRICE AT WHICH U.S. WHEAT IS OFFERED UNDER THE RESTRICTIVE USDA "EXPORT ENHANCEMENT PROGRAM" HAS NOT BEEN EXTENDED TO THE SOVIET UNION. CONSEQUENTLY, THE POTENTIAL OF U.S. WHEAT EXPORT SALES UNDER THE "EXPORT ENHANCEMENT PROGRAM" TO SEVERAL MARKETS IN NORTH AFRICA ARE SMALLER IN VOLUME THAN THE ACTUAL VOLUME WHICH HAVE BEEN LOST IN POTENTIAL WHEAT EXPORT SALES TO THE SOVIET UNION.

BECAUSE OF THE SIGNIFICANCE OF THE SOVIET MARKET FOR THE CONTINUED EXPORT OUTLET FOR U.S. CORN, WE NOW MUST CONCLUDE THAT U.S. CORN FARMERS WILL BE FAR BETTER OFF FOR U.S. CORN NOT TO BE INCLUDED IN THE USDA "EXPORT ENHANCEMENT PROGRAM." THIS OPINION BECOMES EVEN FIRMER TO U.S. CORN FARMERS AND THE NATIONAL CORN GROWERS ASSOCIATION IF USDA OFFICIALS CONFIRM THAT THE SOVIET UNION REFUSED TO PURCHASE THE AGREED UPON ANNUAL MINIMUM AMOUNT OF U.S. WHEAT BECAUSE THE SOVIET UNION WAS REFUSED U.S. WHEAT EXPORTS AT THE SAME COMPETITIVE PRICE LEVELS OFFERED TO THE NORTH AFRICAN COUNTRIES.

WE WOULD LIKE TO BE UNEQUIVOCALLY CLEAR ON THIS POINT: THE NATIONAL CORN GROWERS ASSOCIATION HAS, AND CONTINUES TO SUPPORT AND ADVOCATE THE GOAL OF MORE BROAD BASED, ONGOING AND SUSTAINABLE EXPORT ENHANCEMENT INITIATIVES. WE HAVE SERIOUS RESERVATIONS ABOUT THE RESTRICTIVE AND NARROW CRITERIA ESTABLISHED BY USDA OFFICIALS IN DEVELOPMENT AND ATTEMPTING TO IMPLEMENT THE USDA "EXPORT ENHANCEMENT PROGRAM." IN ADDITION, WE WILL CONTINUE TO HAVE VAREL BAILEY TO SERVE ON THE USDA EEP ADVISORY COMMITTEE TO WORK TOWARD ACHIEVING OUR GOAL FOR SUCH EXPORT ENHANCEMENT INITIATIVES.

IN CONCLUSION, WE WOULD ALSO LIKE TO COMMENT THAT THE CURRENT SITUATION OVER THE ISSUE OF "CARGO PREFERENCE" REQUIREMENT FOR U.S. GOVERNMENT ASSISTED AGRICULTURAL EXPORT COULD WELL CLOUD AND CREATE UNCERTAINTY OVER THE "COMMERCIAL" NATURE OF THE USDA "EXPORT ENHANCEMENT PROGRAM." IF THE ABOVE CONCERNS AND RESERVATIONS THAT WE EXPRESSED DID NOT EXIST, IT COULD WELL DEVELOP THAT ANY SUCH "EXPORT ENHANCEMENT PROGRAM" WOULD BE SERVERELY HAMPERED AND IMPAIRED IF THERE IS NOT A RESOLUTION TO THE "CARGO PREFERENCE" DILEMMA FACING THE U.S. AGRICULTURAL EXPORT ORIENTED COMMUNITY.

WE APPRECIATE HAVING THIS OPPORTUNITY TO APPEAR BEFORE YOU TODAY, AND WILL ATTEMPT TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE ABOUT OUR TESTIMONY.

(Attachment follows:)

NATIONAL CORN GROWERS ASSOCIATION
NEWS RELEASE
Suite 645, 818 18th Street, N.W. Washington, D.C. 20006 (202) 223-6296

FOR IMMEDIATE RELEASE

DISAPPOINTMENT OVER LACK OF BONUS EXPORT PROGRAM RESULTS

Washington, D.C., August 15, 1985 ..... "Disappointed and frustrated over the lack of any concrete results from the Export Enhancement Program (EEP)" were the remarks of several farmer members of the Advisory Committee on the Export Enhancement Program (EEP). These remarks were made following the initial meeting of the Advisory Committee on August 14, 1985, in Washington. This EEP Advisory Committee is chaired by Dan Amstutz, USDA Under Secretary for International Affairs and Commodity Programs.

Joining in these remarks and comments were the following EEP Advisory Committee members:

Varel Bailey (Iowa), President
National Corn Growers Association

Erv Friehe (Nebraska), Vice Chairman
U.S. Wheat Associates

Fred Kerr (Kansas), Farmer
Kansas State Senator

Richard E. Bell (Arkansas), Chairman
Agriculture & Trade Policy Committee

T.L. "Sam" Irmen (Ohio), First V.P.
National Grain & Feed Association

Myron R. Laserson (New York), Pres.
North American Export Grain Assn.

* * * * MORE * * * *

The fact that the detailed mechanisms to implement the Export Enhancement Program are coming on line is encouraging. However, the Committee members pointed out the time of uncertainty between announcement and implementation has been costly to U.S. agriculture because of delayed purchases by the only two foreign buyers.

Committee members encouraged broadening the scope of the program to more countries and more commodities. In addition, plans to make the program more flexible to move more quickly were presented. These plans included ways for our regular customers to participate: a program to capitalize on the growing ethanol industry; a premium export grain quality program; and, ways that commercial exporters can initiate sales.

The Export Enhancement Program has two billion dollars of CCC-owned commodities to use over the next three years. This could increase U.S. agricultural exports by meeting foreign competitiveness and countering unfair international trade practices. According to the USDA Chairman of the EEP Committee, criteria for the program are:

(1) Sale must result in additionality to the world

(2) Sale must be positive to the U.S. economy

(3) Sale must be commercial

(4) Overall program must be budget neutral

(5) Sale must coincide with overall international trade policy of the U.S. and supportive of the strategy in anticipation of the upcoming multilateral round of international trade negotiations

* * * * MORE * * * *

(6) Sale may be part of a commercial credit package to a particular country

(7) Sale must have U.S. Government Interagency clearance

The Advisory Committee pointed out that the restrictive criteria for the program may prevent it from dealing adequately with the enormous and growing inventory of agricultural commodities.

USDA officials were open to suggestions and proposals. The next meeting of the EEP Advisory Committee will be announced soon.

Other agricultural industry members of the EEP Advisory Committee are:

Harry Bell (South Carolina), President
South Carolina Farm Bureau

Don Butler (Arizona), President-elect
National Cattlemen's Association

FOR MORE INFORMATION - Please Contact:

Varel Bailey	(712) 762-3622
Erv Friehe	(303) 586-6728 or (308) 335-5635
Fred Kerr	(316) 672-6605 or (913) 296-7380

* * * * END * * * *

Mr. **BEDELL.** Thank you.

Mr. Gabbert.

Did you have more, Mr. Bailey?

Mr. **BAILEY.** Yes; I would make some comments, either following Mr. Gabbert or now.

Mr. **BEDELL.** Would you go ahead now?

STATEMENT OF VAREL BAILEY, IMMEDIATE PAST PRESIDENT, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION

Mr. **BAILEY.** Let me make a couple of observations. In the questioning earlier you asked about the 1972 export subsidy situation, which in the press was commonly called the great grain robbery. Doing a little research, I think the subsidy peaked at around 56 or 57 cents a bushel there, and drew quite a reaction publicly and, I think, politically. Right now we are at over $1 a bushel on wheat, to get some perspective here, and we're probably at 25 or 30 cents a bushel on corn, so it will give us some dimension and some value here to work with.

The second thing I would like to point out is that an attempt more recently had to do with blended credits, and a number of credit initiatives which we found—there was no way that they could make up for this type of differential. You can't give enough credit to make up that magnitude of difference.

The third point that I would like to point out was that the agricultural organizations were very much involved in what was called the target price freeze, and that was a tradeoff in target prices in the 1981 legislation for export enhancement, for money to use to get these products moving. Basically that money was not effectively used, and I think there are many of us in the agricultural organizations that say that that was a very bad deal, the fact that the Government did not hold up its end of the bargain. We took the target price freeze but we did not get the response in the exports.

The fourth point I would like to bring up was that it was a broad-based agricultural group that went to the White House and met with Mr. Stockman and Mr. Regan and made the following points: One, that we are accelerating a buildup of stocks, that we are accumulating these stocks at a rate of acceleration probably in excess prior to the PIK Program. We already know that storage and administrative costs are tremendous. I was really interested in the comments of the GAO people as to how they would account for those costs, but in the long run it costs somebody.

The fifth point is that, if we're not careful, agriculture is going to paint itself into another corner. We are going to seriously have to look at some other PIK Program or some other farm program of that magnitude with this tremendous buildup in stocks.

The result of that meeting in the White House was that, "Here, you have $2 billion. Go out and do something with it. Get rid of these stocks." Well, the agency selected to do that was USDA, and the advisory committee was set up, of which Mike and I are members. The questions brought out earlier, I think you guys are on the right track. The advisory committee has not had access to the mechanism and the mechanics of how the program might work, so that we in effect can help the Export Enhancement Program.

The point then is that the Export Enhancement Program is not working. First of all, if we thought that the Export Enhancement Program was going to cause the right reaction in the European Community, it has caused the opposite. Right now the Europeans are shipping corn to Spain, a market that has always been ours, putting it in there at something like $80 or $90 a ton, a sizable subsidy, and so we're in a situation where, if you look at cause and effect, the wrong thing is happening.

Second of all, we are making our regular customers mad. All the panel members I think have made that point. Also, the pending action, this year that a country has to respond, basically lowers the price. You know, why hurry? Let's draw this thing out and really pick our time to tender our offers.

I don't think there is any question that the Soviet Union perceives this as a violation of the LTA. We can wrestle around and use a lot of verbs and nouns but I think their perception is that we have violated the LTA.

Another point that I would like to make, and that I started with, is, I don't think we have enough money to make this thing work. At $1 a bushel, on wheat alone, you've only got some $700 million a year. To really move that at that type of a differential, you don't have enough money to work with.

As was noted by George, the corn industry is better off not to be in the program right now. Cargo preference, the way it's going through the Congress right now, will kill this program. There is no question about that.

You have already made the point about elasticity of demand, and I think that we can say that there is elasticity out there. The question is: What kind of a mechanism can we use to exercise that elasticity?

There is a real credit issue here, and I think it needs to be stated. The credit issue is: Which loans do you want to go bad? Do you want the agricultural loans out in rural America to go bad, or do you want the loans in the foreign countries to go bad? And which loans going bad have the least impact?

A couple of other points: Probably the best Export Enhancement Program, as far as we are concerned, is the marketing loan. It gets away from GATT, it gets away from cargo preference, it gets away from the fact that bureaucracy cannot work in a marketplace.

With that, I'll respond to any questions. Thank you.

Mr. BEDELL. Mr. Gabbert.

STATEMENT OF J. STEPHEN GABBERT, EXECUTIVE VICE PRESIDENT, RICE MILLERS' ASSOCIATION

Mr. GABBERT. Thank you, Mr. Chairman. With your permission, I would like to submit my statement for the record and just make some summary comments.

Mr. BEDELL. Without objection, your entire statement will be entered in the record.

Mr. GABBERT. Mr. Chairman, my name is Stephen Gabbert. I am executive vice president of the Rice Millers' Association.

During the period March through June 1985, I served as chairman of a coalition that was formed to obtain implementation of an Export Enhancement Program, and the members of the coalition are listed in my prepared statement.

I do want to make it clear that I am not speaking on behalf of this group but I am speaking only and solely on the part of the Rice Millers' Association, but I did think it was relevant to discuss or review briefly the activities of the coalition during that period. We did have several meetings with Senators, David Stockman, Under Secretary Amstutz, and Secretary Block regarding the implementation of the administration's $2 billion Export Enhancement Program.

The last meeting we had with them was on May 22, at which Mr. Stockman explained to the group exactly what the program was going to be doing. The coalition pointed out at that time—and Mr. Laserson was also at that meeting—a number of us pointed out that the program, the way it was structured, would reduce the scope of the program so that they wouldn't be able to spend the $2 billion, and they were going to be antagonizing traditional customers, and bringing the interagency process into the mechanics was going to make the program very difficult to operate.

We recommended that the expenditure of the $2 billion be maximized in the first year and that the program be expanded, the scope of the program be expanded to allow shipments to traditional export customers, and that the underlying basis for the program would be to make U.S. exports competitive. These recommendations were put in a letter to Secretary Block on June 3, 1985.

At the conclusion of the meeting, one of the senior administration officials present pleaded for a chance to operate the program for a period of time before legislation that our group had under consideration would be introduced. Mr. Chairman, as we know and we have heard this morning, 5 months have gone by since that period and BICEP just isn't working. Basically, it has been strangled by interagency criteria which have been established by cabinet-level officials who really don't have much interest in the program, and this addresses the question that was brought up or the points that were made regarding the interagency process. That is, as I am told, a number of cabinet officials, representing other Departments, view the program as a deal that was cut by David Stockman in which they had no part, in which they were not a part of the process and were not involved, and therefore really not interested whether it works or not. So, I think it makes it very difficult for USDA, within this economic policy council, to try to get criteria that would be flexible enough to operate the program.

I think, just to make a point, it's really mind-boggling and inconsistent that the administration and particularly the Treasury Department can promote a $300 million subsidy war chest for industry in addition to mixed credit programs, and on the other hand fail to support similar programs for agriculture.

Mr. Chairman, we have essentially come to a point where we are running out of time for agriculture. You can see by the table on page 5 of my prepared statement that we are building massive inventories and we need to do something now, especially, as Mr. Laserson mentioned, to establish a program that would be a bridge, an interim measure between the expiring legislation that we have and the new farm bill that we hopefully will be completing in the near future.

Accordingly, Mr. Chairman, we would like to introduce for your consideration legislation that has been authored by Mr. Robert Bor and which we think addresses all of the points that have been brought out. As you can see, on page 6 of my statement there is a summary of the legislation. In the first section it establishes an export program advisory committee. Second, describing the basic provisions of the program, that is that you would be utilizing surplus agricultural commodities acquired by the CCC, to be made available to exporters to facilitate shipments of U.S. products to all markets, to all areas where U.S. agricultural commodities are exported.

Then we indicate how the mechanics will operate in a general sense, in that you are going to have export payment rates that will be established, or the exporters or sellers could come in and bid for these commodities and then they would be required to commit these transactions within a certain period of time. Our exporters would not be required to identify export destinations except to the extent necessary to establish that the export was made.

Also, in the latter part of the legislation, the amount of money, the $2 billion, would be used in the first year so that this would maximize, that you would begin to have impact. I think another important thing that we want to stress is that no destinations would be restricted except those that are in conformity with existing U.S. trade prohibitions.

The legislation also requires that the Secretary implement it within 30 days and that by March 1 of the second year of the program, that he submit a report that essentially relates the activities of the program to the period 1979-82, which in essence establishes a base period from which to compare the results of the program.

We appreciate the opportunity to submit our statement, Mr. Chairman, and will be prepared to answer any questions you might have.

[The prepared statement of Mr. Gabbert follows:]

STATEMENT
OF
J. STEPHEN GABBERT
BEFORE THE
DEPARTMENT OPERATIONS, RESEARCH, AND FOREIGN AGRICULTURE SUBCOMMITTEE
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES
TUESDAY, OCTOBER 8, 1985

INTRODUCTION

My name is J. Stephen Gabbert. I am Executive Vice President of The Rice Millers' Association (RMA). Established in 1899, the RMA represents independent rice milling firms and farmer-owned cooperative rice mills, with facilities in Arkansas, California, Louisiana, Mississippi, Tennessee and Texas. RMA members process virtually all of the rice produced in the United States and sell significant quantities of rice directly to the export market.

EXPORT COALITION

During the period March through June 1985, I served as chairman of a coalition formed to obtain implementation of an export enhancement program. Coalition participants were: American Soybean Association, Continental Grain Company, The Fertilizer Institute, Louis-Dreyfuss Corporation, National Association of Wheat Growers, National Corn Growers' Association, National Council of

Farmer Cooperatives, and The Rice Millers' Association. Our coalition participated in group meetings with more than a dozen senators, Secretary John Block, former OMB Director David Stockman, and Undersecretary Daniel Amstutz regarding implementation of the Administration's $2.0 billion export enhancement program. The coalition's last meeting with this group was held on May 22, 1985.

COALITION MEETINGS

At the May 22 meeting, it was pointed out by Administration officials that, as part of the negotiations on the budget resolution, Mr. David Stockman had committed the Administration to a $2.0 billion, three-year export enhancement program to be carried out using payments-in-kind, rather than payments-in-cash. It was stated that the objectives of the program were to accelerate exports of U.S. agricultural commodities and to target subsidized export markets of competing countries. It was also pointed out by Administration officials that further details about the program were not available at that time and that the program was to be initiated as an interim measure.

Coalition representatives pointed out to Administration officials that limiting the BICEP program to the above mentioned objectives would have the effect of:

(A) reducing the scope of the program from $2.0 billion to several hundred million dollars;

(B) antagonizing our traditional customers and losing more business than would be gained therefrom;

(C) causing disputes within the Administration as to the countries to which the program would be applied, thereby delaying its implementation and effectiveness.

COALITION RECOMMENDATIONS

The coalition strongly recommended to Administration officials present at the meeting that they maximize expenditure of the $2.0 billion in the first year of the program and that the program be targeted to our traditional export customers throughout the world, to the extent needed to make U.S. exports competitive. The coalition agreed that the program was to be an interim measure and stressed that it was not the intent of the coalition to provide subsidies on all agricultural exports to all importing countries without regard to whether it was needed to maintain competitiveness in those markets. The coalition's recommendations were sent to Secretary Block in a June 3, 1985 letter.

At the conclusion of this meeting, a senior Administration official pleaded for a chance to operate the BICEP program for a period of time before legislation that was supported by the coalition was considered.

BICEP INEFFECTIVENESS

Mr. Chairman, almost five months have passed since our May 22, 1985 meeting with Administration officials. What has happened in the meantime to the Administration's BICEP program? The fact that this hearing is being held answers the question. The program has turned out to be a miserable failure that has, as our coalition warned on May 22, 1985, antagonized our traditional customers and lost more business than it has gained. The program has been strangled by ineffectual interagency-established criteria. BICEP has been made an orphan by indifferent cabinet-level officials who view it as a program conceived out of wedlock by Mr. David Stockman without the consultation or advice of relevant Administration officials. It is mindboggling, and inconsistent at best, how on the one hand the Administration, particularly the Treasury Department, can promote a $300.0 million export subsidy war chest and mixed credit programs for industry, and on the other hand fail to support similar programs for agriculture.

TIME HAS RUN OUT

Mr. Chairman, time has run out for agricultural exports. As the following USDA table dramatically indicates, the United States is building massive commodity inventories because of a continued loss of global market share.

	Pre-PIK 1982/83		Forecast 1985/86	
	Ending Stocks	% of Use	Ending Stocks	% of Use
	Mil.		Mil.	
Wheat (bu.)	1,515	(63)	1,569	(69)
Corn (bu.)	3,120	(43)	2,717	(38)
Soybeans (bu.)	345	(16)	555	(31)
Cotton (bales)	7.90	(74)	8.41	(90)
Rice (cwt.)	71.5	(58)	73.8	(62)

There is no time left for further rhetoric about the priorities of agricultural exports. Action is needed now. American agriculture needs a viable export enhancement program that will be implemented as soon as possible and serve as an interim measure that will facilitate the transition from expiring farm legislation to the new farm bill.

Mr. Chairman, the Administration has had its chance. Its inept implementation of the BICEP program during the past five months is graphic evidence of failure. In view of the present indifference on the part of high-level Administration officials to the operation of the current BICEP program, we cannot realistically expect that there will be any significant change in the scope of the program.

PROPOSED LEGISLATIVE REMEDY

Therefore Mr. Chairman, it is time for Congress to act. Accordingly, The Rice Millers' Association submits for the subcommittee's consideration Attachment "A" of my statement, which is draft legislation mandating the immediate implementation of a viable BICEP program. This bill was authored by Mr. Robert Bor.

For your guidance we provide the following summary of the bill:

Subsection (a)	Definitions.
Subsection (b)	Establishes an Agricultural Export Program Advisory Committee to advise the Secretary on the regulations to be issued in implementation of the section and on the operation of a broad-based Bonus Incentive Commodity Export Program (BICEP). The Committee is to be composed of 12 private sector representatives appointed by the Secretary. The private sector members shall have experience in agricultural production, agribusiness, and export marketing.
Subsection (c)	Describes the basic provisions of BICEP. Surplus agricultural commodities acquired by CCC are to be made available by the Secretary of Agriculture to U.S. exporters and users at no cost to facilitate the development, maintenance, and expansion of export markets for U.S. farm products, including value- added products in all areas to which U.S. agricultural commodities are exported. Export payment rates would be determined by CCC on a bid or announced basis. Interested exporters and users must submit offers to the Secretary describing the amount and type of commodities or products to be exported. Successful bidders are required to complete the designated export transactions within a specified period of time, and would not receive the bonus until exportation of the commodity is complete.

Exporters would not be required to identify export destinations, except to the extent necessary to establish that the export was made to the area to which the export payment applied, and destinations would not be restricted except in conformity with existing U.S. trade prohibitions. If the exporter fails to complete the transaction as agreed, the exporter would be subject to payment of liquidated damages.

Subsections (d)-(h) To the extent practicable, bonus commodities equal in value to at least $2 billion would be used the first year BICEP is in effect, and such dollar value as the Secretary deems appropriate for each of the second and third years. Bonus commodities must be exported either in the same or processed forms. The Secretary would ensure that domestic users of commodities exported under BICEP would not be disadvantaged by the importation of products manufactured from such commodities. Periodic reports to the Congress would be required of operations under the program. Implementing regulations would be required to be issued within 30 days after the date of enactment of the bill.

Subsection (i) Provides for the termination of the advisory Committee and of BICEP three years after the date of issuance of regulations under this section.

In conclusion Mr. Chairman, American agriculture cannot continue to wait until the new farm bill is implemented to become competitive in the international marketplace. Congress needs to act now on an interim basis to give the new farm bill a chance to work. Thank you Mr. Chairman, for providing us this opportunity to testify.

(Attachment follows:)

99th CONGRESS
1st SESSION

ATTACHMENT A

BONUS INCENTIVE COMMODITY EXPORT PROGRAM

"Sec.____(a) As used in this section:

(1) "The term "agricultural commodities" means agricultural commodities produced in the United States and products thereof, including value-added or high-value products, processed in the United States.

(2) "The term "bonus commodities" means agricultural commodities acquired through price support operations by the Commodity Credit Corporation.

(3) "The term "advisory committee" means the Agricultural Export Program Advisory Committee established under subsection (b).

(4) "The term "Secretary" means the Secretary of Agriculture.

(b) (1) "There is established within the Department of Agriculture an advisory committee to be known as the "Agricultural Export Program Advisory Committee".

(2) "The advisory committee shall provide advice to the Secretary on regulations to be issued in implementation of the bonus incentive commodity export program carried out under this section and, at appropriate intervals, provide advice to the Secretary on the operation of such program.

(3) "The advisory committee shall be broadly representative of the private sector which engages in activities related to the export of United States agricultural commodities and shall consist of twelve members who have experience in agricultural production, agribusiness, and export marketing. The members shall be appointed by the Secretary.

(4) "The Secretary shall provide the advisory committee with necessary clerical assistance and staff personnel. The advisory committee may secure directly from any officer, department, or agency of the Government such information, suggestions, estimates, and statistics as the advisory committee may require for the purpose of carrying out its functions. Such officer, department, or agency, shall furnish, to the extent permitted by law, such information, suggestions, estimates, and statistics directly to the advisory committee, upon request made by the chairman or vice chairman.

(5) "Members of the advisory committee shall serve without compensation, except that members shall, while away from their homes or regular places of business in the performance of services under this section, be allowed travel expenses, including per diem in lieu of subsistence, as authorized under section 5703 of title 5 of the United States Code.

(6) "The advisory committee shall be governed by the provisions of The Federal Advisory Committee Act.

(c) (1) "The Secretary shall formulate and carry out a program under which bonus commodities are provided to United States exporters and users at no cost to cause exports of United States agricultural commodities to be competitive in world markets and encourage the development, maintenance, and expansion of export markets for United States agricultural commodities in all countries or areas to which United States agricultural commodities are exported.

(2) "In order to be eligible to receive bonus commodities under this section, an exporter or user shall submit an offer, acceptable to the Secretary, to export a specified quantity and kind of agricultural commodity, within a prescribed period of time after acceptance of the offer, in consideration of receipt of bonus commodities.

(3) "The bonus commodities to be made available shall be of a value equal to (A) an export payment rate established by the Secretary, either on the basis of bids included in the offer submitted to the Secretary or by periodic announcement, multiplied by (B) the quantity of the agricultural commodity exported in accordance with the offer. Such export payment rate may be determined on a world-wide basis or separately for particular areas or importing countries, as the Secretary deems appropriate, but in any event, export payment rates shall be established for all countries or areas to which exports of United States agricultural commodities are made as necessary to accomplish the objectives of this subsection.

(4) "Bonus commodities shall be made available upon receipt of evidence of export, in accordance with the exporter's or user's offer accepted by the Secretary, except that the Secretary may provide for the bonus commodities to be made available for export in the same shipment as the export that serves as the basis for earning the bonus commodities. The bonus commodities may be of the same kind, or at the election of the exporter or user, a different kind than the commoditity being exported, depending on the availability of bonus commodities. Any price restrictions that may otherwise be applicable to dispositions of agricultural commodities shall not apply to dispositions of bonus commodities made available under this section. Bonus commodities received by the exporter or user or an equivalent amount must be exported either in the same form or in the form of products produced or processed in the United States from such commodities.

(5) "If the exporter or user fails to export or cause exportation as required by the offer accepted by the Secretary, the exporter or user shall pay to the Secretary liquidated damages in an amount specified in regulations issued by the Secretary. If the bonus commodities received by an exporter or user are not exported within the period of time prescribed by the Secretary, the exporter or user shall pay to the Secretary an adjustment in price equal to the difference between the price used in computing the amount of bonus commodities to be made available and the sales price of such commodities for unrestricted use.

(6) "The Secretary shall not require exporters or users to identify the export destination of agricultural commodities exported pursuant to offers submitted under this subsection and not otherwise restrict the destination of such exports, except to the extent necessary to establish that the export was made to the area to which the export payment rate applied, and to comply with trade restrictions imposed by other provisions of law.

(d) "The Secretary shall, to the extent practicable, provide bonus commodities under this section which, in the aggregate, are equal to at least $2,000,000,000 in the first year after the effective date of regulations issued under this section, at least such dollar value as the Secretary deems appropriate for each of the second and third years after the effective date of regulations issued under this section.

(e) "Notwithstanding any other provision of this section, the Secretary shall take such action as may be necessary to ensure that the program carried out under this section provides equal treatment to domestic and foreign purchasers and users of United States agricultural commodities in any case in which the importation into the United States of a manufactured product made, in whole or in part, from a commodity tendered for export under the program would place domestic users of the agricultural commodity at a competitive disadvantage.

(f) "Not later than March 1 beginning with the second calendar year succeeding the date of enactment of this Act, the Secretary shall report to the Congress the exports from the United States of agricultural commodities to each country during the period 1979 to 1982 and to each country during the immediately preceding calendar year, and the exports to each country during the immediately preceding year of bonus commodities made available under the authority of this section. The report shall also include for the same periods exports to each such country of agricultural commodities produced outside the United States that are used for the same or similar purposes as exports of agricultural commodities to such country from the United States. For the purpose of the report, exports shall be listed by kind, value, and quantity, and for exports of agricultural commodities produced outside the United States, the country of origin shall be provided.

(g) "The Secretary shall carry out the program authorized by this section through the Commodity Credit Corporation.

(h) "The Secretary shall issue such regulations as are necessary to implement the provisions of this section not later than 30 days after the date of enactment of this Act.

(i) "The advisory committee shall cease to exist, and the requirement to make bonus commodities available under this section shall terminate three years after the date of issuance of regulations under this section."

Mr. **Bedell**. Mr. Evans.

Mr. **Evans** of Iowa. I thank the chairman for yielding me time out of order, and I only have just a minute because I have another appointment that I have to go to.

I strongly support your testimony and the positions you have taken, and think they are very valuable statements. I would just like to comment on one particular item, and that has to do with cargo preference. We have gone through the exercise recently in the House of determining where the votes are, and now it's very, very clear, where it wasn't before, that the votes just aren't there to do away with cargo preference. I mean, I never thought that they were, but we have gone through that exercise and we have found that out now.

I want to commend the Corn Growers on their efforts to arrive at a compromise earlier, and I think the time is now ripe to get to work again with those people and to try to come up with an understanding, or we are going to be in difficulty with any program that we may want to come up with on enhancing exports. I have at least some reason to believe that the other side is also interested in arriving at an understanding, and so I hope you will continue to take the lead in promoting that sort of thing. Again, I want to thank you for your past efforts.

Thank you, Mr. Chairman.

Mr. **Bedell**. Thank you, Mr. Evans.

Mr. Roberts.

Mr. **Roberts**. Yes; thank you, Mr. Chairman. I too want to thank the witnesses.

On page 7 of your testimony, Mr. Gabbert, you say, "In conclusion, Mr. Chairman, American agriculture cannot continue to wait until the new farm bill is implemented to become competitive in the international marketplace. Congress needs to act now on an interim basis to give the new farm bill a chance to work." I could not agree with you more. We're talking about the 1986 crop year, regardless of what we do on this farm bill, and those hurdles are yet to jump. It's a virtual gauntlet to get any new farm bill, so I want to thank you for that comment.

All of you have talked about an export PIK of some kind across the board, as opposed to the problems that we have heard in regards to the testimony, and I would ask this of all the witnesses: Do you really think that the agriculture community has the political muscle to offer subsidized grain sales to the Soviet Union? That obviously is who we're talking about when we're talking about across the board.

Mr. **Anselm**. It would seem to me that the marketing loan would probably be the best option to achieve this goal, and that if this concept can be accepted in the new farm bill, that this would go a long ways toward achieving this end. Possibly we need, if the marketing loan concept can be realized in the new bill, maybe it should be applied to the 1985 crop as well.

Mr. **Roberts**. Well, you're making the speech that I have made many, many times to my colleagues and on the floor of the House. We lost that effort by 20 votes. However, we do have the marketing loan that is discretionary in terms of its language in the committee bill. I don't know what the other body will do but it is my understanding, at least in the Agriculture Committee language, that they still have a marketing loan over there.

That was my next question, really: Would any of the other witnesses care to comment on those two subjects?

Mr. **BAILEY**. Let me comment first on the direct subsidy. The point I made earlier on "the great grain robbery" I think pretty well eliminates a direct subsidy to the Soviet Union. It would take a tremendous turnaround on the arms control negotiations and many other things, the immigration of people, and so forth, I feel, before politically a direct subsidy would be palatable to the United States.

Mr. **GABBERT**. I think this argument about subsidizing sales to the Soviet Union is a specious argument. I think, as Mr. Laserson mentioned, that's what you are going to be doing anyway in the new farm bill. I think it's something that we can deal with and just push forward on it.

Your question was, Does the agriculture community have the muscle to do it? I think it does. I think we need to try.

Mr. **ROBERTS**. Well, if the Redskins could beat St. Louis last night, why not? [Laughter.]

I'm a little perplexed, Mr. Chairman. I have heard that, at least in my country, the girls all get prettier at closing time. At the time that Madam BICEP was flirting with us and dancing on the dance floor, we all wanted to dance with her. As a matter of fact, some of us wanted to take her home, and made those speeches. I have never seen a program become such an ugly duckling and so ineffective and so bollixed up as this one has, and would hope that we could get some order out of this.

I want to thank the witnesses. It is a difficult period that we are in, and I would hope with your testimony we could doll Madam BICEP up again and at least have her acceptable to dance with.

I have no further questions.

Mr. **BEDELL**. Mr. Penny.

Mr. **PENNY**. Thank you, Mr. Chairman.

In your testimony, Mr. Anselm, you indicated that the Corn Growers would just as soon get out of the program. Do you consider your price for corn competitive today in the world market?

Mr. **ANSELM**. At the present time, no; it isn't.

Mr. **PENNY**. Can you share with me the statistics on corn exports this year as compared to last year?

Mr. **ANSELM**. Do you have those at your fingertips, Varel?

Mr. **BAILEY**. They are down about 20 percent, in round terms there.

Mr. **PENNY**. Is that in volume?

Mr. **BAILEY**. Yes.

Mr. **PENNY**. Down 20 percent in volume and down more than that in value?

Mr. **BAILEY**. Yes.

Mr. **ANSELM**. Pricewise it would be more.

Mr. **PENNY**. What grain is moving overseas? I assume you're selling at all prices, so some corn is selling for more than other corn, but what is the range? What is the price range on the corn that you are able to sell?

Mr. BAILEY. Well, the world price--I'm not sure of your question—the world price is about $20 a ton under our price, and again that is a very round number because not all corn is priced the same. Flint corns and Dent corns and so forth, all this enters into it, but the important point is that we are marginally above the world corn price. The statement of the National Corn Growers is that we feel that if we continue and become a part of the Export Enhancement Program, that more of our markets will disappear around the world.

Mr. PENNY. Than you will gain?

Mr. BAILEY. Than we will gain; yes.

Mr. PENNY. Because a lot of the people that you're selling to are traditional customers that don't benefit from that program.

Mr. BAILEY. And it's real simple to understand: If we pick up a couple million metric tons in north Africa and lose 16 million metric tons in the Soviet Union, it's a real easy deal to understand.

Mr. PENNY. I'm not disputing your testimony. I'm just trying to get a handle on the quantity of grain that you are moving. Even though our price is marginally above the world price, you are able to move 80 percent this year of what you moved last year because they are willing to pay that higher price, because of contracts that exist, or whatever else.

You also listed several of your associates on this commission who had joined you in a statement of opposition to the targeted and inefficient approach that has been used by the USDA. Two of the members of farm organizations didn't cosign that, one from the Farm Bureau and one from the Cattlemen. Were they absent at that meeting, or didn't they share your view that the program was flawed?

Mr. BAILEY. In all honesty, we could not personally contact those individuals. They left immediately after the last meeting and after 3 days we were still unable to contact them, and that is the reason that they were not included on that list.

Mr. PENNY. What is going to be your advice at the next get-together? Are you going to ask them to make it an across-the-board program or are you going to ask them to scrap it?

Mr. BAILEY. At this point I feel I will ask for significant modifications, and it will be an either/or thing, you know. Either this thing must be broadened out so that it does move product, or it should be scrapped, because it is really hurting right now.

Mr. PENNY. The Corn Growers asked for—I may have this wrong—but I think they asked for a farm bill with a $3.18 target and $2.55 loan.

Mr. ANSELM. That's correct.

Mr. PENNY. Can you move grain overseas at $2.55?

Mr. ANSELM. We asked for a market loan.

Mr. PENNY. Oh, and then a marketing loan to take that grain and move it?

Mr. ANSELM. That's right.

Mr. PENNY. What do you think that the world price is going to move to if we institute a marketing loan program? How far down are we going to go?

Mr. ANSELM. That's a good question. I don't think anybody can really answer that, but I assume that it would be somewhere under

$2, at least in the primary stages of the market loan. Our hope is that this would discourage some production in some other areas of the world and we would eventually move back up to a higher price level.

Mr. PENNY. Testimony earlier today indicated that when we tried to target a sale, a BICEP sale, the Europeans stepped in and increased their subsidy and undercut us. Do you feel the marketing loan avoids that effectively?

Mr. ANSELM. I think it's the only mechanism that has a chance to avoid it, because with a marketing loan they really have no target to shoot at. They don't know what the price is going to be next week or 2 weeks from now or a month from now or a year from now.

Mr. BAILEY. All we're really talking about is that their bureaucracy is faster than our bureaucracy right now, so they can get a step ahead of us.

Mr. ANSELM. That's right.

Mr. PENNY. I think your testimony points out the reservation I have and a number of us have with the legislation that's moving on both the House and the Senate side right now, because as we gradually reduce loan rates we're just giving them a signal where they've got to go to get ahead of us.

Mr. ANSELM. That's right.

Mr. PENNY. And I don't think we are ever going to find out what share of that world market we can have unless we institute some kind of a dramatic change in our farm policy. The marketing loan is one approach that could be taken. Mr. Bedell had another approach. But if we continue on the same course or this kind of incremental adjustment, I don't think we are ever going to get ahead of the game.

Mr. ANSELM. Oh, I think it just makes for a worse disaster down the road than we have now.

Mr. PENNY. I have no further questions.

Mr. BEDELL. Mr. Gabbert, you proposed a different export program but, at least in the few minutes I have had to look at it, it looks to me like it still is up to the Secretary to implement it and kind of do as he pleases with it. Is there something I'm missing in that proposal of yours?

Mr. GABBERT. Well, again, there's no way you can ever legislate competence.

Mr. BEDELL. You can legislate what he has got to do, or you can tell him what you hope he will do.

Mr. GABBERT. You can make it more specific if you want, Mr. Chairman. We provided general outlines. There are some checks and balances in there, for example. He does have 30 days, he has to implement it, and also he has to submit that report in terms of what he is doing, and we tied in there a base period of 1979 to 1982, which was the high point of agricultural exports. The reason for that is that he has got to come back up here and say that that program is compared to this period and here are what the results are, and if they are not there he is going to have to deal with the consequences of that, but you can tighten it up any way you want.

Mr. BEDELL. Well, I'm one of those that think unless we make it airtight, you're just kidding yourself if you think that this administration is going to do any more than simply get an advisory committee that can come listen to what they're telling you is going to happen.

When is your meeting tomorrow, Mr. Bailey?

Mr. BAILEY. Tomorrow at 2.

Mr. BEDELL. Two o'clock? What would you think if a number of Members of Congress asked to attend that meeting of this committee?

Mr. BAILEY. I think it might make the meeting more exciting. [Laughter.]

Mr. BEDELL. Well, I think that's something that some of us would consider. I think we're pretty upset over what we have heard here today in regard to the problem.

I think I can summarize the testimony. The testimony has been, we would be better off without the program than we are with it the way it is. Isn't that your testimony?

Mr. BAILEY. That pretty well sums it up. We really appreciate your highlighting the issue. We, as lay people and people in the industry have a limited ability to highlight the problems of it, and the action of this subcommittee is very much appreciated.

Mr. BEDELL. Most of us would expect, since you're on the advisory committee, you would be on the inside much more than we would be, but I guess that's not necessarily true.

Mr. GABBERT. Mr. Chairman, I don't think you are going to get the attention of the administration with any more meetings. I think you have gotten to the point where you are almost going to have to introduce legislation to implement it, to make it effective immediately, in order to get their attention so you can get the negotiating process going on.

Mr. BEDELL. Well, I've got some prejudices in that regard. I don't think I ought to voice them at this time, but thank you.

If there are no further questions, we want to thank you very much for your testimony.

[Whereupon, at 11:53 a.m., the subcommittee recessed, to reconvene at 9 a.m. on Thursday, October 10, 1985.]

[Material submitted for inclusion in the record follows:]

MILLERS'
NATIONAL
FEDERATION
600 Maryland Avenue, S.W., Suite 305 West Wing • Washington, D.C. 20024 - 202-484-2200

October 10, 1985

Honorable Berkley Bedell
Chairman, Subcommittee on
Department Operations Research
and Foreign Agriculture
House Agriculture Committee
2459 Rayburn House Office Building
Washington, D. C. 20515

Dear Mr. Bedell:

After listening to the testimony before your subcommittee yesterday on the USDA Export Enhancement Program (EEP), I am obliged to comment in behalf of the members of the U.S. wheat flour milling industry who have concluded successful sales under the program. I request that this letter be included as part of the record.

While it is true that the EEP is somewhat complex, the recent sale of several cargoes of wheat to Egypt and the first sale of 150,000 metric tons of flour to Egypt indicate that U.S. exporters can work within the framework of the program to generate additional sales. Additionally, and contrary to comments yesterday, the program also has been effective in increasing costs to the European Community (EC), an original target of the program for its unfair subsidy practices. In order to compete successfully in a recent EEP world tender for wheat flour to Yemen, the EC was forced to raise its restitution (subsidy) to 80 ECUs ($67 U.S. per ton). That action made it markedly more expensive for the EC to win the sale.

While U.S. millers were unsuccessful by $2/ton in bidding on that Yemeni business, the normal tender process under which the government of Yemen historically purchases ag commodities was preserved because of willingness of USDA to amend the EEP. Such consideration for the tendering customs of the host country was an important consideration when the EEP was designed. The program for Yemen remains in effect, and I would not be surprised to see successful U.S. sales during another tender now that the first round has provided market discovery. Maintenance of normal market processes is a major tenent of the EEP.

Certain witnesses intimated that the process for targetting commodities and recipient nations under the EEP was conducted by magic or was a function of a less than forthright process. There was criticism that decision making on export PIK targets prior to announcement is conducted within USDA as part of the interagency process. That fails to take into consideration one basic aspect of the program--one imposed upon USDA by Congress--that unfairly subsidizing foreign competitors were to be kept off balance by U.S. responses to their actions. To accomplish that, a certain confidentiality factor must be imposed on the process. That confidentiality in no way undermines the effectiveness of the program, nor does it unfairly advantage a particular commodity group or recipient nation.

I hope these observations will be taken into consideration as you further analyze the EEP. I would be happy to respond to any questions that they may generate. Thank you for your consideration.

Very truly yours,

Roy Henwood

Roy M. Henwood
President

cc: Hon. Pat Roberts
Ranking Minority Member

RMH:lar

TESTIMONY SUBMITTED BY

DAN MCGUIRE

EXECUTIVE DIRECTOR

NEBRASKA WHEAT BOARD

The following introductory letter is from Ervain Friehe, who is a member of the BICEP Committee as well as Chairman of the Nebraska **Wheat Board:**

August 14, 1985

BICEP Committee Members:

As a member of the advisory committee of the Bonus Incentive Commodity Export Program, I would like to propose that the BICEP effort be redirected.

I am seriously concerned that the "targeted" approach has served to offend our reliable importing customers. The initial thrust of the program gave the world the image that the United States would cater to its unreliable customers and ignore its loyal, longtime markets.

If the BICEP program is to serve as both an export bonus and an incentive to the future sales and increased market share for the U.S., it must operate "across the board" to all foreign customers. Furthermore, it should be an approach that rewards those markets where the U.S. enjoys a high percentage of the market share. This booklet offers such a plan under the tab called Option 1. Note recent telexes from some of our loyal customers concerning the BICEP approach.

Other creative approaches should also be considered. The tab entitled Option 2 offers a means to export value-added products such as wheat gluten and flour, corn byproducts, etc. This approach will serve to regain world market share for the U.S. while building a long term commodity supply management system within our own economy. The value-added products suggested under this option would be used in a food aid effort, serving to compliment various existing PL-480 and food for peace programs. This is substantial economic justification for exercising this option considering that it will be a long term investment in this nation's industrial development. (See GAO Study and July 17 Senate Testimony)

Option 3 provides a means to invest in upgrading the quality (cleanliness) and image of U.S. grains in the world marketplace. By using the funds that are earmarked for the BICEP program to install high speed cleaning systems at all U.S. export elevators, the U.S. will be offering a competitive bonus that should interest virtually all U.S. customers.

I urge the committee to give serious consideration to the options suggested herein.

Sincerely,

Ervain J. Friehe

Ervain J. Friehe
1502 Norris Avenue
McCook, NE 69001

OPTION 1

ACROSS THE BOARD
BONUS INCENTIVE

EXPLANATION:

THIS PROPOSAL OPERATES ON THE PREMISE THAT LOYAL U.S. CUSTOMERS SHOULD BE REWARDED IN PROPORTION TO THE PERCENT OF MARKET SHARE ENJOYED BY THE U.S. IN TERMS OF THAT COUNTRY'S IMPORTS OF U.S. COMMODITIES. THE FORMULA IS BASED ON % U.S. MARKET SHARE AND ACTUAL VOLUME PURCHASED FROM THE U.S. FOR THE PAST THREE YEARS, INCLUDING MY 84-85. IF, FOR EXAMPLE, A SPECIFIC COUNTRY HAS PURCHASED 100% OF ITS WHEAT IMPORTS FROM THE U.S., ITS EXPORT BONUS VOLUME UNDER BICEP WILL BE DIRECTLY RELATED TO THAT 100% PURCHASE RECORD. A FACTOR WILL BE USED TO ACTUALLY DETERMINE THE VOLUME OF BUSHELS. FOR INSTANCE, THE FACTOR COULD BE ONE BUSHEL OF BONUS WHEAT FOR EVERY BUSHEL PURCHASED. IF THE ONE FOR ONE FACTOR IS UNREALISTIC, A MORE REALISTIC FACTOR COULD BE USED...1/2 BUSHEL BONUS FOR EVERY 1 BUSHEL PURCHASED. IMPORTING CUSTOMERS WITH A LESS THAN 100% RECORD OF PURCHASING U.S. WHEAT (IN TERMS OF U.S. MARKET SHARE) WOULD RECEIVE BONUS BUSHELS BASED ON THE PERCENTAGE OF MARKET SHARE THAT THE U.S. DOES ENJOY.

AN EXAMPLE OF THE FORMULA AND A HYPOTHETICAL CASE FOLLOWS. WHEAT IS USED FOR ILLUSTRATION PURPOSES BUT THE SAME APPROACH COULD WORK FOR CORN AND OTHER COMMODITIES.

EXAMPLES

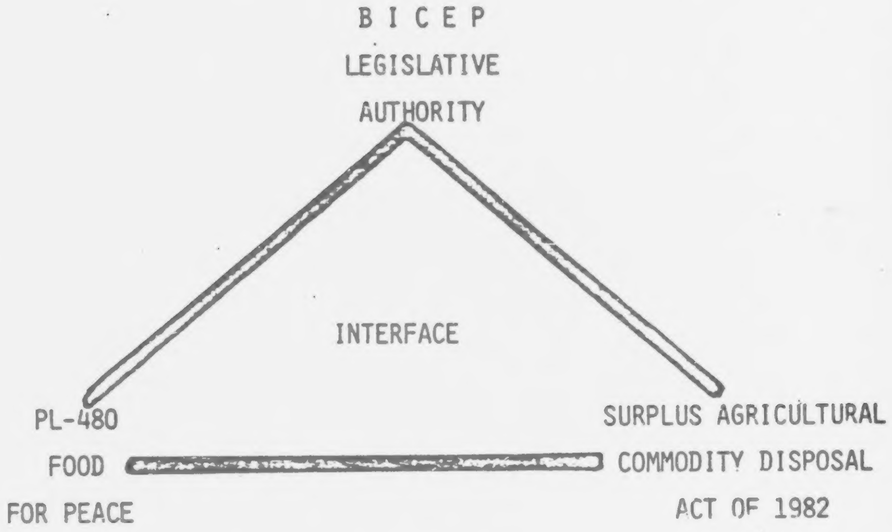
Country	% U.S. Market Share	Past 3-Year Average Volume of U.S. Wheat Imports	Bonus Bushels (Bonus Factor) 1/2 to 1
Country A	100%	3 million tons	1.5 million tons
Country B	99%	2 million tons	.99 million tons
Country C	66%	1 million ton	.33 million tons
Country D	50%	2 million tons	.50 million tons

FORMULA

% U.S. Market Share	x	U.S. Volume Purchased	x	50% (1/2 Factor)	=	Bonus Bushels
100%		3 million tons		50%		1.5 mil. tons
99%		2 million tons		50%		.99 mil. tons
66%		1 million ton		50%		.33 mil. tons
50%		2 million tons		50%		.50 mil. tons

The above formula would apply regardless of whether the importer is a credit or cash market for U.S. grains.

OPTION 2


BICEP
LEGISLATIVE
AUTHORITY
INTERFACE
PL-480
FOOD
FOR PEACE
SURPLUS AGRICULTURAL
COMMODITY DISPOSAL
ACT OF 1982

VALUE-ADDED

EXPLANATION:

ANOTHER VIABLE OPTION WORTH SERIOUS CONSIDERATION BY THE BICEP COMMITTEE AND USDA IS THE USE OF THE $2 BILLION APPROPRIATION FOR THE PURSUIT OF A COMBINED SUPPLY MANAGEMENT, VALUE-ADDED EXPORT PROGRAM. THE LOGIC OF SUCH AN APPROACH LIES IN THE NATURE OF THE INVESTMENT. IT IS TRULY AN INVESTMENT THAT MESHES A NUMBER OF FEDERAL LAWS TOGETHER IN A COORDINATED FASHION.

THE PROGRAM WOULD INTERFACE THE BICEP LEGISLATION WITH THE PL 480-FOOD FOR PEACE PROGRAM AND THE SURPLUS COMMODITIES DISPOSAL ACT OF 1982, SIGNED BY PRESIDENT REAGAN IN OMAHA, NEBRASKA IN OCTOBER OF 1982. SPECIFICALLY, S.2554 STATES THAT THE COMMODITY CREDIT CORPORATION SHALL CONTRACT, TO THE EXTENT FEASIBLE, UNDER TERMS AND CONDITIONS ESTABLISHED BY THE SECRETARY, FOR THE PROCESSING OF ITS ACCUMULATED STOCKS OF COMMODITIES INTO LIQUID FUELS AND AGRICULTURAL COMMODITY BYPRODUCTS. SUCH LIQUID FUELS SHALL BE MADE AVAILABLE TO HELP MEET THE NEEDS OF THE FEDERAL GOVERNMENT FOR TRANSPORTATION AND INDUSTRIAL FUEL.

AS A MEANS OF BLENDING THE BICEP AUTHORITY WITH THE PROVISION OF BOTH THE SURPLUS AGRICULTURAL COMMODITIES DISPOSAL ACT OF 1982 AND THE ONGOING PL 480 FOOD FOR PEACE AUTHORITY, I SUBMIT THE FOLLOWING PLAN:

PROPOSAL:

THE COMMODITY CREDIT CORPORATION OFFER CCC-OWNED WHEAT AND FEEDGRAINS FREE OF CHARGE AS COLATERAL FOR THE CONSTRUCTION OF INTEGRATED FOOD BYPRODUCT/ETHANOL/CO_2 AND RELATED PRODUCTION PRO-

CESSING FACILITIES. SUCH FACILITIES WILL PROVIDE LONG TERM CAPABILITY FOR EITHER PRIVATE OR GOVERNMENT CONTRACTS AIMED AT PROCESSING SURPLUS COMMODITIES WHICH CAN COMPLIMENT THE U.S. ECONOMY THROUGH A VALUE-ADDED EXPORT INITIATIVE. SUCH VALUE-ADDED PRODUCTS AS WHEAT GLUTEN CAN BE USED TO BOTH ASSIST IN A U.S. FOOD AID EFFORT IN NEEDY COUNTRIES AND TO ENHANCE THE ABILITY OF U.S. WHEAT FLOUR TO COMPETE IN INTERNATIONAL MARKETS.

THE BICEP FUNCTION IN THIS INTERFACE CAN BE SUCH THAT THE CCC COMMODITIES PROVIDED AS COLATERAL FOR THE FINANCING OF ETHANOL PRODUCTION FACILITIES ARE TIED TO THE VALUE-ADDED EXPORT BONUS EFFORT. CONTRACTING ETHANOL FACILITIES RECEIVING THE CCC COMMODITIES WILL BE OBLIGATED TO TURN OVER THE WHEAT GLUTEN, CORN GLUTEN, DISTILLERS GRAINS OR OTHER RELATED FOOD BYPRODUCTS TO CCC OR THEIR CONTRACTING EXPORT AGENTS FOR EXPORT AS BONUS COMMODITIES.

JUSTIFICATION:

FOR EVERY $1 BILLION OF INVESTMENT IN FOOD BYPRODUCT/ETHANOL PRODUCTION, IT IS POSSIBLE TO CREATE 500 MILLION GALLONS OF ETHANOL PRODUCTION CAPACITY. IT IS ESSENTIAL TO COMPARE SUCH A LONG TERM INVESTMENT OF FEDERAL DOLLARS AGAINST THE POTENTIAL, EASILY EQUIVALENT EXPENDITURE FOR THE INTEREST COST OR STORAGE COST TO THE FEDERAL TREASURY TO SIMPLY MAINTAIN SURPLUS, FORFEITED COMMODITIES (SEE PROJECTED COST ATTACHED).

IT SHOULD ALSO BE REALIZED THAT THE WHEAT AND FEEDGRAINS THAT WILL UNDOUBTEDLY BECOME THE PROPERTY OF THE FEDERAL GOVERNMENT ARE STORED IN THE MAJOR GRAIN PRODUCTION AREAS OF THE U.S. IN MIDWESTERN STATES SUCH AS KANSAS, NEBRASKA, IOWA AND OTHERS, THE DEVELOPMENT OF FOOD BYPRODUCT/ETHANOL PROCESSING FACILITIES COULD

SERVE TO GREATLY REDUCE THE TRANSPORT CHARGES OF EXPORT BONUS BUSHELS OF RAW COMMODITIES TO EXPORT POINTS, THEREBY FREEING UP MORE OF THE $2 BILLION FOR ACTUAL INDUSTRIAL CAPACITY IN THE NATION'S HEARTLAND. THE APPROACH WILL BE AN EFFICIENT ECONOMIC CATALYST TO THE DEPRESSED AGRICULTURAL ECONOMY. THIS DIRECTION WILL SERVE THE ECONOMIC INTERESTS OF EVERY AMERICAN TAXPAYER.

OTHER REMARKS:

FOLLOWING THIS PAGE IS A COPY OF:

1. S.2554, THE SURPLUS AGRICULTURAL COMMODITIES DISPOSAL ACT OF 1982.

Also, the following are available from the Nebraska Wheat Board:

2. A COPY OF WHEAT GLUTEN, A NATURAL PROTEIN FOR THE FUTURE - TODAY.
3. A DIAGRAM SHOWING THE WHEAT AND CORN BYPRODUCTS AVAILABLE THROUGH AN INTEGRATED FOOD PROCESSING/ ETHANOL FACILITY.
4. A COMPREHENSIVE ANALYSIS OF BENEFITS OF FUEL ETHANOL PRODUCTION IN THE UNITED STATES.
5. A COPY OF THE U.S. GENERAL ACCOUNTING OFFICE REPORT ON THE IMPORTANCE AND ECONOMIC BENEFITS OF THE ALCOHOL FUELS INDUSTRY.
6. A SUMMARY OF THE AGRICULTURAL TRADE AND ASSISTANCE ACT OF 1954 - PUBLIC LAW 480 (FOOD FOR PEACE PROGRAM).

POTENTIAL
COST OF GOVERNMENT OWNED
WHEAT AND CORN

Projected Volume of CCC Stocks
by May 31, 1986

Commodity	Bushels	x	Storage/Handling	=	Cost (Annual)
Wheat	2 billion bu.	x	.50	=	$ 1.0 billion
Corn	3 billion bu.	x	.50	=	1.5 billion
Grain Sorghum	300 million bu.	x	.50	=	.150 billion
Barley	200 million bu.	x	.50	=	.100 billion
TOTAL	5.5 billion bu.	x	.50	=	$2.75 billion

5-Year Federal Cost

1st Year*	$ 2.75 billion	x	12% interest	=	$ 330 million
2nd Year*	$ 3.08 billion	x	12% interest	=	$ 370 million
3rd Year*	$ 3.45 billion	x	12% interest	=	$ 414 million
4th Year*	$ 3.86 billion	x	12% interest	=	$ 463 million
5th Year*	$ 4.32 billion	x	12% interest	=	$ 518 million
5-Year Cost*	$17.46 billion				$2.095 billion in interest cost alone

*includes storage/handling + interest

The above billions of dollars in costs can be avoided if the USDA can be convinced to turn over presently held CCC stocks to ethanol production facilities. Similarly, the USDA should channel grain forfeited under commodity loan programs into an ethanol development reserve to be used as colateral for the financing development and long term establishment of ethanol and food and feed byproduct utilization capacity. This approach will save the federal treasury billions of dollars while providing a long term solution to the problem of surplus grain inventories and weakened export demand. This will be a logical, value added and economically sound program. It will create jobs in the depressed heartland of the nation, stimulate the economy, expand the diminishing tax base and provide long term growth potential for our nation's largest industry.

NOTE: For every $1 billion of investment in production facilities, it is possible to create 500 million gallons of ethanol production capacity. Contrast this wise investment to the use of federal funds for commercial grain storage and handling costs.

II

97TH CONGRESS
2D SESSION

S. 2554

To require the Commodity Credit Corporation to dispose of Government-owned stocks of agricultural commodities.

IN THE SENATE OF THE UNITED STATES

MAY 20 (legislative day, MAY 11), 1982

Mr. PERCY (for himself, Mr. DIXON, Mr. JEPSEN, Mr. ZORINSKY, Mr. PRESSLER, Mr. BAUCUS, Mr. BURDICK, Mr. LEVIN, and Mr. EXON) introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

---

A BILL

To require the Commodity Credit Corporation to dispose of Government-owned stocks of agricultural commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Surplus Agricultural Commodities Disposal Act of 1982".

SEC. 2. The Agricultural Act of 1949 is amended by adding a new section as follows:

"SEC. 423. (a) Notwithstanding any other provision of law, in order to prevent the accumulation of excessive stocks of commodities through the price support operations of the

Commodity Credit Corporation, the Commodity Credit Corporation shall contract, to the extent feasible, under terms and conditions established by the Secretary, for the processing of its accumulated stocks of commodities into liquid fuels and agricultural commodity byproducts. Such liquid fuels shall be made available to help meet the needs of the Federal Government for transportation and industrial fuel.

"(b) In determining the feasibility of contracting for the processing of Commodity Credit Corporation stocks of commodities under subsection (a), the Secretary shall consider the nature of the commodities, the acquisition, transportation, handling, storage, interest, and other costs associated with acquiring and maintaining such stocks, including the effect of such stocks in depressing agricultural commodity prices, as well as the value and utility of such stocks when processed into liquid fuels and agricultural byproducts.

"(c) The Secretary shall also take into account the prospects of disposal of such stocks in the marketplace in relationship to prevailing market conditions.

"(d) Within one hundred and twenty days after the enactment of this section, and annually thereafter, the Secretary shall report to the Congress with respect to the operation of this section, including any recommendations for legislative changes the Secretary finds necessary with respect to the authority provided in this section.".

OPTION 3

CLEANING EXPORT GRAIN
A BONUS IN ITSELF

EXPLANATION:

ANOTHER METHOD OF PROVIDING THE FOREIGN CUSTOMER AN EXPORT BONUS IS TO CLEAN U.S. WHEAT AND FEEDGRAINS AT ALL U.S. EXPORT ELEVATORS.

THE LOGIC IN THIS APPROACH LIES IN THE FACT THAT THE EXISTING U.S. GRAIN STANDARDS ALLOW A CONSIDERABLY HIGH PERCENTAGE OF NON-MILLABLE MATERIAL (IN THE CASE OF WHEAT) TO BE EXPORTED AS WHEAT...AT WHEAT PRICES. LEGAL AMOUNTS OF DOCKAGE, FOREIGN MATERIAL, WHEAT OF OTHER CLASSES, DAMAGED KERNELS, ETC. ALL ADD UP TO MAKE U.S. WHEAT AND GRAINS LESS DESIRABLE THAN IF THE EXPORT SHIPMENTS WERE CLEANED UP.

BY USING THE $2 BILLION (BICEP FUNDING AUTHORITY) AS AN INVESTMENT TO INSTALL HIGH SPEED, SOPHISTICATED CLEANING SYSTEMS AT U.S. EXPORT ELEVATORS, OUR FOREIGN CUSTOMERS WILL BE RECEIVING A CLEANER PRODUCT. SUCH AN EFFORT WILL HAVE A LONG TERM, POSITIVE IMPACT RELATIVE TO THE IMAGE OF U.S. GRAINS IN THE WORLD MARKETPLACE. ALL FOREIGN CUSTOMERS WILL BE GETTING MORE "WHEAT" OR "CORN" FOR THEIR MONEY WHICH WILL BE A TRUE BONUS COMPARED TO THE CURRENT SYSTEM. FURTHERMORE, SUCH AN INVESTMENT WOULD ENHANCE THE ABILITY TO MAKE MEANINGFUL CHANGES IN THE U.S. GRAIN STANDARDS.

How Cleaning Grain Becomes an Export Bonus

Commodity	% Unmillable	x	Volume Exported	=	Amount of Incentive Bushel Equivalent
Wheat	5%		1.4 billion bu.		70 million bu.
	6%		1.4 billion bu.		84 million bu.
	7%		1.4 billion bu.		98 million bu.
	8%		1.4 billion bu.		112 million bu.
	9%		1.4 billion bu.		126 million bu.
	10%		1.4 billion bu.		140 million bu.
Corn	5%		1.7 billion bu.		85 million bu.
	6%		1.7 billion bu.		102 million bu.
	7%		1.7 billion bu.		119 million bu.
	8%		1.7 billion bu.		136 million bu.
	9%		1.7 billion bu.		153 million bu.
	10%		1.7 billion bu.		170 million bu.

THE CLEAN OUT % OF U.S. GRAIN EXPORT SHIPMENTS WOULD ALSO BE AN INCENTIVE FOR PRICES TO STRENGTHEN BECAUSE THAT SAME PERCENTAGE OF VOLUME WOULD BE REMOVED FROM AVAILABLE SUPPLIES. ALL CUSTOMERS WOULD BE TREATED EQUALLY UNDER THIS SYSTEM, WHETHER CASH OR CREDIT BUYERS, REGARDLESS OF U.S. MARKET SHARE.

ADDITIONAL INFORMATION [redacted] IS AVAILABLE FROM THE NEBRASKA WHEAT BOARD REGARDING U.S. EXPORT FLOW PATTERNS AND EXPORT ELEVATORS AS WELL AS U.S. WHEAT STANDARDS.

STATEMENT OF
U.S. MEAT EXPORT FEDERATION

Before the United States House of Representatives
Committee on Agriculture
Subcommittee on Department Operations,
Research and Foreign Agriculture
October 8, 1985

The U.S. Meat Export Federation (USMEF) is a broad based trade association representing U.S. meat producers and processors working together to increase U.S. exports of red meats, particularly beef and pork. USMEF engages in market development, trade servicing and advocates the reduction of trade barriers.

USMEF has proposed to USDA an export enhancement program to assist U.S. pork producers and processors to counter pork export subsidies used by the European Economic Community (EEC) in sales to Japan. USMEF appreciates this opportunity to explain its export enhancement proposal to you.

USDA Export Enhancement Program:

On May 15, 1985, the United States Department of Agriculture (USDA) announced a $2 billion Export Enhancement Program which would offer government owned commodities such as grain as bonuses to U.S. agricultural exporters. The goal of the Enhancement Program is to expand sales of U.S. agricultural products in targeted markets which are unfairly controlled by subsidized competition. Under USDA's program, commodity bonuses will be available periodically and will be commodity and destination specific; for example, wheat sales to Algeria.

In developing this program, USDA established four criteria which each export initiative must meet in order to be eligible for participation in export enhancement. These four criteria are:

1. Additionality-- the use of export enhancement must increase U.S. export sales above the level which would have occurred in the absence of the program;

2. Targeted Markets-- export enhancement will only be available for exports in those foreign markets in which competitors such as the EEC, are subsidizing their exports;

3. Cost Effectiveness-- the export enhancement will only be used where the resulting additional export sales will result in a net plus to the overall U.S. economy; and

4. Budget Neutrality-- export enhancement will not be available if it requires additional budget outlays.

USMEF Export Enhancement Proposal:

In response to the announcement of USDA's Enhancement Program, USMEF has developed and presented to USDA an export enhancement proposal to assist U.S. pork exporters to regain their fair share of the Japanese pork market which has been lost to EEC-subsidized pork exports. Historically, Japan has been an excellent market for U.S. pork. However, because of EEC pork subsidies, U.S. exporters have seen their share of the Japanese pork market decline from 20% in 1983 to 8% in the first quarter of 1985, while the Danish share of the market rose from 20% to 40%.1/

The USMEF Export Enhancement Proposal contains several key provisions which are tailored to the commercial practices which characterize the U.S. pork export trade in Japan. These are:

1. Export enhancement should be available in either commodities or Section 32 cash.

2. Export enhancement must be available on all U.S. pork sales to Japan and not merely "additional" sales.

3. The exporter should know the level of enhancement available to him before he negotiates his sales.

4. The program should be based on a simplified bid system which accommodates the difference between selling meat and selling grain.

USDA has been extremely receptive and forthcoming with respect to USMEF's proposal. However the Department has exhibited concern over whether this proposal will fit within the guidelines established by its interagency advisory committee.

Without some modification of these program guidelines, it will be extremely difficult for meat exporters to effectively participate in the Enhancement Program. We therefore recommend the following considerations be taken into account.

1/ LIPC Newsletter, June 12, 1985, p.7.

Additionality:

Export enhancement should be available on all sales of a commodity to a market like Japan, not just those sales above the existing U.S. market share. Meat is sold to Japan on a continuing basis in relatively small quantities of 1 to 5 containers at a time. Because of these frequent small sales, it is impossible to determine when an individual exporter will exceed the level of exports he would have achieved without the program and therefore to determine what sales are "additional sales." Japanese purchasers, given the choice of EEC subsidized pork and U.S. pork which may or may not include the enhancement, can be expected to choose the lower priced, subsidized product. In order to effectively counter EEC subsidies, the enhancement must be available for every sale and on the same basis as the EEC provides subsidies.

Targeting:

USDA has voiced concern over the potential that export enhancement on U.S. pork cannot be exclusively targeted on subsidized European products because other nations, particularly Taiwan and Canada, also export to Japan. Since U.S. exporters export only frozen pork to Japan, the program should not injure Taiwanese chilled pork sales to Japan. Canadians, like U.S. exporters, have seen their share of pork exports to Japan fall dramatically in the face of subsidized EEC exports. Therefore, U.S. export enhancement would have very little impact on Canadian exports which now comprise a very small share of the total Japanese pork market. If export enhancements are limited to markets in which subsidized EEC product is the only competition, this targeting criteria will mean that enhancement will be unavailable for most products in most markets.

Trade statistics clearly demonstrate that, since 1983, the U.S. pork export industry has lost approximately 12% of the Japanese market while EEC exporters have gained 20%.2/ Clearly, U.S. pork exports to Japan have been lost to subsidized EEC competition. Since the General Agreement on Tariffs and Trade (GATT) Subsidies Code3/ specifically allows the United States to act to maintain an equitable share of world export trade, USDA's Enhancement Program should be flexible enough to achieve this objective.

2/ Id.

3/ Agreement on Interpretation and Application of Articles VI, XVI, XXIII of the General Agreement on Tariffs and Trade, 12 April, 1979, Article 10 - Export Subsidies on Certain Primary Products, Paragraph 1.

Cost-effectiveness:

USMEF had originally proposed that any enhancement be directly related to the amount of grain consumed in producing the exported meat. However, new calculations show that the EEC subsidies to Japan are at such high levels that an enhancement on pork cannot be limited by some arbitrary corn-hog ratio.

Increased exports of any agricultural product will generate additional jobs in the domestic economy. Providing export enhancement to regain a market for value-added products will be cost-effective under any criteria. Since pork is a value-added product, increased exports have a particularly high potential to make export enhancement cost effective because they embody not only the grain fed to the livestock but also the labor required to produce and process the product.

Several studies have estimated the impact value-added exports have on U.S. employment and the Gross National Product (GNP). Blandford and Boisvent estimate that 57 more jobs are generated by exporting $1 million of livestock products over the equivalent amount of feed ingredients.4/ One half of these jobs would be at the production level, as opposed to the processing level or another sector of the economy.

Using 1980 data, a recent USDA study estimated the increase in GNP generated by exporting 1,000 tons of feedstuffs in various forms.5/ According to the study, exporting 1,000 tons of corn generated $220,000. Exporting the feed as 250 tons of pork generated $1.2 million and $1.75 million as 300 tons of packaged meats.

Finally, if the Enhancement Program criteria require an automatic cap on the amount of the enhancement, the EEC can be expected to increase its pork subsidies to ensure continued market domination. USDA must recognize that it is challenging the seemingly bottomless pockets of the EEC Common Agricultural Policy and must be willing to provide a program which will be taken seriously by the EEC.

4/ Blandford, D. and R.N. Boisvent, "Employment Implications of Exporting Processed U.S. Agricultural Products." ATAE 64(1982): 347-354.

5/ U.S. Department of Agriculture, "High Value Agricultural Exports - U.S. Opportunities in the 1980's," FAER No. 188, Washington, D.C., September 1983.

Budget Neutrality:

USMEF strongly supports USDA's attempts to implement export enhancement in a way which will not increase an already over-burdened budget. Accordingly, the use of government owned/CCC commodities is an efficient use of those products. However, the use of CCC commodities should not be the only form of enhancement offered. The typical pork exporter is a meat packer; he does not produce his own livestock. Therefore, he cannot use the grain as feed, and he does not have the facilities to store or sell that grain. By providing only CCC commodities as enhancement, USDA is decreasing the real value of the enhancement since the meat exporter must expend additional resources to convert the grain into cash.

Because USMEF supports the concept that export enhancement should not require additional budget outlays, we have proposed the use of Section 32 funds [Public Law 320, 7 U.S.C. § 612c(1)]. This section sets aside 30% of tariff receipts for a variety of agricultural purposes, the first named of which is to "encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof...." USMEF recognizes that Section 32 funds are currently used for a variety of meritorious purposes, but export enhancements for meat exporters are also worthy of consideration for this funding.

Other Areas of Difficulty:

USDA has implemented export enhancements thus far with a bid process which requires the exporter to close his export sales prior to bidding for a specific CCC bonus. The exporter must enter into sales contracts which are conditioned on his receiving a satisfactory bonus.

This bid system is not amenable to the kind of frequent, small volume sales negotiation in which U.S. pork exporters engage. The velocity and frequency of Japanese pork purchases make it unlikely that Japanese buyers will enter into conditional sales contracts, or that U.S. pork exporters can bear the financial risk of entering contracts without knowing what level of enhancement is available. Pork exporters must know the level of enhancement prior to their negotiations in order to exercise the same negotiating power as their subsidized competitors.

USMEF has proposed a bid system whereby USDA would approve a level of enhancement available to all pork exporters during a specified period of time, i.e., 90 days or 180 days. This would be a practical approach.

Conclusion:

USMEF supports the initiatives which have been taken to expand export markets for U.S. agricultural products and appreciates the genuine receptiveness and consideration which USDA has given to the USMEF export enhancement proposal. However, in order to assist agricultural exporters of all types of commodities, including pork, USDA must be willing to interpret and modify the interagency export enhancement guidelines to fit the practical needs of different commodities.

In sum, the following changes would allow meat exporters to participate the Enhancement Program.

1. Provide export enhancement in either commodities or cash.

2. Provide export enhancement on all sales of pork to Japan.

3. Consider the cost effectiveness of expanding export markets for value-added products like pork.

4. Implement export enhancement for pork through a simplified bidding system.

REVIEW OF THE EXPORT ENHANCEMENT PROGRAM ANNOUNCED BY THE U.S. DEPARTMENT OF AGRICULTURE

THURSDAY, OCTOBER 10, 1985

House of Representatives,
Subcommittee on Department Operations,
Research, and Foreign Agriculture,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:05 a.m., in room 1302, Longworth House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

Present: Representatives Penny, Volkmer, Roberts, Evans of Iowa, and Combest.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Glenda L. Temple, clerk; Timothy J. Galvin, Diane Sligar, Bernard Brenner, Anita R. Brown, Eugene Moos, and Gary R. Mitchell.

OPENING STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Bedell. The subcommittee will come to order.

As chairman, I would like to thank Mr. Amstutz for changing his schedule. Because of the problems we had with the farm bill, we were unable to proceed as we had originally scheduled, and on behalf of the subcommittee, I want to thank you. I understand you do have limited time this morning, so I think even though we would hope we would have some more members of the subcommittee here as we proceed, I think we will go right ahead because of your limited time.

Mr. Roberts.

OPENING STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. Roberts. Thank you, Mr. Chairman.

I would like to associate myself with your comments and thank you, Dan, for coming. Part of the reason that we had this scheduled at 9 o'clock was some other commitments that I had personally as well as several other members of the subcommittee, and we find out now, as is standard around this place, that those have been canceled. So, Mr. Chairman, we could have started at 10 as far as I am concerned, but I see everybody is bright-eyed and bushy-tailed, so it is nice to get started.

Mr. BEDELL. You may proceed, Mr. Amstutz.

STATEMENT OF DANIEL G. AMSTUTZ, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DENIS LAMB, DEPUTY ASSISTANT SECRETARY, BUREAU OF ECONOMIC AND BUSINESS AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss the Export Enhancement Program with you.

The program was launched this past spring when the administration committed up to $2 billion over 3 years in the asset value of commodities owned by the Commodity Credit Corporation to subsidize exports. The CCC stocks, in the form of a bonus, were to be used to make U.S. exports competitive in selected export markets.

In carrying out the administration's commitment, a program has been developed that meets two important objectives: First, to increase U.S. farm product exports; and second, to challenge unfair trade practices of competitor nations.

The program involves a series of export initiatives over the next 3 fiscal years which must meet the following criteria:

Sales under the program must be directed at specific markets, particularly those where competitors subsidize their exports.

Sales under the program must increase U.S. agricultural exports above what would have occurred in the absence of a program.

Sales under the program must not increase budget outlays above what would have accrued without the program.

These criteria were established by the Cabinet-level Economic Policy Council with representation from the Departments of Agriculture, Commerce, Treasury, Labor, and State; the U.S. Trade Representative; and the Council of Economic Advisors.

Proposals on enhancement initiatives may be generated by all sources. Ideas have been submitted by private sector exporters, U.S. farm organizations, importers, and, of course, by the USDA.

All proposals are reviewed first by USDA to determine if the program criteria will be satisfied. Preliminary selections are then forwarded to an interagency committee for further review. Approved initiatives are implemented by the Department's Foreign Agricultural Service and Agricultural Stabilization and Conservation Service. In addition, special FAS teams have traveled to the selected markets to brief officials on program operations and details.

Program implementation, in terms of mechanics such as tendering and contractual arrangements, has remained flexible. Procedures have varied from country to country to accommodate the individual buying systems of the importing nations involved in the program.

The bonus is to be sufficient to allow our commodities to be competitive, but it is not intended to undercut the world market price. In other words, the program is designed to ensure that sales made under it are at commercial, not concessional, prices.

To ensure that we are meeting these competitive and commercial objectives, a price review process has been developed. The process calls for a review of the level of both the bonus and the sale price. This is to assure not only that the bonus paid to exporters is not too high, but also that the sale price, relative to subsidized foreign competition, is not too low.

In the price review, we determine the cost of delivering the U.S. commodity to the foreign buyer and the price at which the same commodity can be delivered to the same destination by subsidized foreign competitors.

The difference between the two—the amount by which the competition can underprice us—is used in determining the acceptable bonus.

We work to arrive at a bonus determination which is most prudent from a cost standpoint. We employ the offer or bid process whereby exporters provide us with offers or bids for bonuses at specific levels. This helps ensure the competitive and commercial objectives of the program.

In developing the program, we have tried to stay as close as possible to normal marketing procedures. one difference in operating under the Export Enhancement Program vis a vis unsubsidized export sales is that some U.S. exporters desire to have the amount of bonus firmly established with the USDA before finalizing a firm export contract with the foreign buyer. This procedure is very similar to that used under the Public Law 480, Title I Program.

Currently, an exporter is required to post a performance security with the CCC before CCC will consider the exporter's offer. Once an offer is accepted, the exporter reserves bonus commodities from CCC inventories. After shipment, the exporter must furnish proof of export to request delivery of the bonus commodity.

After the exported goods arrive in the destination country, USDA releases the performance security posted by the exporters.

To date, export enhancement programs have been announced for:

Algeria, 1 million tons of wheat;

Egypt, 500,000 tons of wheat and 600,000 tons of wheat flour;

Yemen, 100,000 tons of wheat and 50,000 tons of wheat flour; and

Morocco, 1.5 million tons of wheat.

So far, Egypt has purchased 500,000 tons of wheat and 175,000 tons of wheat flour under the program. Yemen is in the market for wheat flour and Algeria has requested offers for wheat.

We are confident that the initiatives announced to date will be utilized over the 12-month life of each one and will result in increased exports for the United States. We are continually pursuing other possibilities and will be making announcements of new initiatives in the future. We hope these initiatives encourage our competitors to negotiate more seriously on changing unfair trade practices.

At every step in the review and implementation process for the Export Enhancement Program, we are taking care to ensure that the actions taken boost the competitiveness of U.S. commodities, and result in additional exports at commercial prices.

Finally, Mr. Chairman, no trade policy or action will work if our own programs and policies contradict economic reality. World agriculture is currently characterized by overcapacity in production relative to demand. By providing incentives for production greater than market realities dictate, we contribute directly to this oversupply problem in our own country as well as others, because of the protective price umbrella our programs provide other, competing producing countries.

Because of these unrealistically high production incentives, many American farm products are not priced competitively in world markets. Unless we change our programs and make them consistent with world market price realities, many segments of American agriculture will continue to be priced out of competitive global markets.

There is another, equally important nontrade policy area that directly impacts on our ability to compete in international markets. Currently, real interest rates and the level at which the U.S. dollar is trading relative to other currencies combine to make for high costs for U.S. exporters vis-a-vis those with whom they are competing in other countries. There is no question in my mind that a principal reason for the high costs in these areas, that impact negatively on our export potential, is directly related to our continuing need to borrow abroad to finance our budget deficit. Until we are able to control our Federal expenditures and maintain them in balance with our revenues, U.S. exporters will be saddled with either high real interest rate costs or a too strong dollar, or both.

That concludes my statement, Mr. Chairman. I will be happy to respond to questions.

[The prepared statement of Mr. Amstutz follows:]

Statement by Daniel G. Amstutz
Under Secretary for International Affairs
and Commodity Programs
U.S. Department of Agriculture
Before the Subcommittee on
Operations, Research and Foreign Agriculture
House Committee on Agriculture
October 10, 1985

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to discuss the Export Enhancement Program with you.

The program was launched this past Spring when the Administration committed up to $2 billion over 3 years in the asset value of commodities owned by the Commodity Credit Corporation to subsidize exports. The CCC stocks, in the form of a bonus, were to be used to make U.S. exports competitive in selected export markets.

In carrying out the Administration's commitment, a program has been developed that meets two important objectives: first, to increase U.S. farm product exports; and second, to challenge unfair trade practices of competitor nations.

The program involves a series of export initiatives over the next three fiscal years which must meet the following criteria:

--Sales must be directed at specific markets, particularly those where competitors subsidize their exports.

--Sales must increase U.S. agricultural exports above what would have occurred in the absence of a program.

--Sales must not increase budget outlays above what would have accrued without the program.

These criteria were established by the cabinet-level Economic Policy Council with representation from the Departments of Agriculture, Commerce, Treasury, Labor, and State; the U.S. Trade Representative; and the Council of Economic Advisors.

Proposals on enhancement initiatives may be generated by all sources. Ideas have been submitted by private sector exporters, U.S. farm organizations, importers, and, of course, by USDA.

All proposals are reviewed first by USDA to determine if the program criteria will be satisfied. Preliminary selections are then forwarded to an interagency committee for further review. Approved initiatives are implemented by the Department's Foreign Agricultural Service and Agricultural Stabilization and Conservation Service. In addition, special FAS teams have traveled to the selected markets to brief officials on program operations and details.

Program implementation, in terms of mechanics such as tendering and contractual arrangements, has remained flexible. Procedures have varied from country to country to accommodate the individual buying systems of the importing nations involved in the program.

The bonus is to be sufficient to allow our commodities to be competitive, but it is not intended to undercut the world market price. In other words, the program is designed to ensure that sales made under it are at commercial, not concessional, prices.

To ensure that we are meeting these competitive and commercial objectives, a price review process has been developed. The process calls for a review of the level of both the bonus and the sale price. This is to assure not only that the bonus paid to exporters is not too high, but also that the sale price, relative to subsidized foreign competition, is not too low.

In the price review we determine the cost of delivering the U.S. commodity to the foreign buyer and the price at which the same commodity can be delivered to the same destination by subsidized foreign competitors.

The difference between the two--the amount by which the competition can under-price us--is used in determining the acceptable bonus.

We work to arrive at a bonus determination which is most prudent from a cost standpoint. We employ the offer process whereby exporters provide us with offers for bonuses at specific levels. This helps ensure the competitive and commercial objectives of the program.

In developing the program we have tried to stay as close as possible to normal marketing procedures. One difference in operating under the Export Enhancement Program vis-a-vis unsubsidized export sales is that some U.S. exporters desire to have the amount of bonus firmly established with the USDA before finalizing a firm export contract with the foreign buyer. This procedure is very similar to that used under the P. L. 480, Title I program.

Currently, an exporter is required to post a performance security with CCC before CCC will consider the exporter's offer. Once an offer is accepted, the exporter reserves bonus commodities from CCC inventories. After shipment, the exporter must furnish proof of export to request delivery of the bonus commodity.

After the exported goods arrive in the destination country, USDA releases the performance security posted by the exporters.

To date, export enhancement programs have been announced for:

--Algeria (1 million tons of wheat);

--Egypt (500,000 tons of wheat and 600,000 tons of wheat flour);

--Yemen (100,00 tons of wheat and 50,000 tons of wheat flour); and,

--Morocco (1.5 million tons of wheat).

Egypt has purchased 500,000 tons of wheat and 175,000 tons of wheat flour under the program. Yemen is in the market for wheat flour and Algeria has requested offers for wheat.

We are confident that the initiatives announced to date will be utilized and will result in increased exports for the U.S. We are continually pursuing other possibilities and will be making announcements of new initiatives in the future. We hope these initiatives encourage our competitors to negotiate more seriously on changing unfair trade practices.

At every step in the review and implementation process for the Export Enhancement Program we are taking care to insure that the actions taken boost the competitiveness of U.S. commodities, and result in additional exports at commercial prices.

Finally, Mr. Chairman, no trade policy will work if our own programs and policies contradict economic reality. World agriculture is currently characterized by over-capacity in production. By providing incentives for production greater than market realities dictate, we contribute directly to this oversupply problem in our own country as well as others because of the protective price umbrella our programs provide other, competing producing countries. Because of these unrealistically high production incentives, many American farm products are not priced competitively in world markets. Unless we change our programs and make them consistent with world market price realities, many segments of American agriculture will continue to be priced out of competitive global markets.

There is another, equally important non-trade policy area that directly impacts on our ability to compete in international markets. Currently, real interest rates and the level at which the U.S. dollar is trading relative to other currencies combine to make for high costs for U.S. exporters vis-a-vis those with whom they are competing in other countries. There is no question in my mind that a principal reason for the high costs in these areas, that impact negatively on our export potential, is directly related to our continuing need to borrow abroad to finance our budget deficit. Until we are able to control our federal expenditures and maintain them in balance with our revenues, U.S. exporters will be saddled with either high real interest rate costs or a too strong dollar, or both.

That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

Mr. **Bedell**. Thank you very much, Mr. Amstutz.

Mr. Lamb, do you have a statement?

Mr. **Lamb**. I do not have a statement, Mr. Chairman, but I, too, would be happy to respond to any questions you have.

Mr. **Bedell**. I think the subcommittee and everybody else should be aware of the fact that you are from the State Department.

Mr. **Lamb**. That is right.

Mr. **Bedell**. Mr. Roberts.

Mr. **Roberts**. First of all, Mr. Chairman, I would like to reiterate what I have said before, and I think it bears repeating. I want to commend you, not only from my standpoint, but on behalf of my beleaguered farmers and ranchers for doing your part in helping to plant the flag of this subcommittee in regard to our interest and oversight responsibility pertaining to our country's trade policy, more especially in regard to where we are going with our exports.

I really appreciate that. I think these hearings are most important. I think we have a situation here where the BICEP Program in the view of some represents a short-term trade policy tool. I don't quarrel with that per se, but I do have some very strong feelings that there are many in my part of the country and many of my colleagues and many within agriculture that certainly thought that the BICEP Program, as originally discussed, would be broadened and would also be a means to move our ag products, to become more competitive, to in fact be a catalyst for additional grain exports as well as our other ag products.

At the bottom line, Mr. Chairman, was that hopefully we could stabilize our market shares, regain some market shares, but that it would have some effect on the surplus and the price which is our original purpose in all this. I don't think that has to be at cross purposes, but I think there are serious questions involved, and I think they really get at what we tried to do in the farm bill and overall farm program policy.

In this regard, some of my questions that I am going to be asking—and I have quite a few—are a little pointed and pertinent. I don't mean them in a personal way, and I want to go on record as saying that Secretary Amstutz has done a good job under very difficult circumstances.

With that, I would like to ask the first question of the Secretary, and I am delighted to have you here, Mr. Lamb. It is not often that we on the ag subcommittee get to beat up on somebody from the State Department. I don't mean that personally, but there are some folks around here who think the State Department thinks it is their grain, if you please, as opposed to the farmer, and I won't get into that speech because you look like a nice fellow and I don't want to start on you right away.

Secretary Amstutz, when the BICEP Program was created by the USDA at the urging of the Senate and most of the commodity and farm organizations, the program envisioned a broad-based subsidy program to get U.S. grain moving at competitive levels. Why has the USDA instead chosen the targeted approach?

Mr. **Amstutz**. Mr. Roberts, from the outset, the administration has said that this is the approach that will be employed. I was not present at the meeting where an agreement was struck between the administration and leaders of the Senate on this particular matter, but I was at the second meeting where more detail was entered into and at that time—this is before the program was announced—it was made clear that the program would be a targeted one.

So, from the outset, from the administration's standpoint, that has been what the program would entail. So, there has been no change.

Mr. **Roberts**. I may followup on that just a bit later.

My second question is, that in the House-passed farm bill, we have mandated—it is not discretionary—we have mandated the Secretary use a bonus commodity export subsidy program on an across-the-board basis. That has been passed by the House of Representatives. I realize that the Senate is an important body. They work in strange and wondrous and awesome ways. I have nothing but respect for my colleagues over on the other side of the Capitol, but we in the House have planted our flag as well, and we mandate that.

If that becomes law, how would the USDA and this administration implement it or, perhaps more to the point, will you implement the program?

Mr. **Amstutz**. Well, if it becomes law, if it is passed by the Congress of the United States and signed by the President, we of course will uphold the law.

Mr. **Roberts**. Smilingly and enthusiastically, no doubt.

Mr. **Amstutz**. There is no question but that it is our function to uphold the law. So, if those two things happen, if the Congress would pass it and the President would sign it, of course we would.

Mr. **Roberts**. Mr. Chairman, I would ask unanimous consent for 2 additional minutes, if that would be all right with Mr. Penny and yourself.

Mr. **Bedell**. Without objection, so ordered.

Mr. **Roberts**. No. 3, in testimony before this subcommittee on Tuesday, witnesses repeatedly said the BICEP Program is actually hurting our export sales. When a merchant offers a reduced price sale, he usually lets the best customers know and participate in the savings. However, the target approach of the BICEP Program is doing just the opposite as alleged by their testimony.

Will the BICEP Program actually result or is it resulting in lower exports than we would have had without the program?

Mr. **Amstutz**. Mr. Roberts, I have heard those reports. Upon hearing them, I have acknowledged that that is a possibility. I have also said that time will in the final analysis prove whether that allegation is true or not.

Having said that, let me also say this. I think at the outset when this deal was in the process of being made, there was considerable confusion about what the program would be for a period of certainly a week or so. But as soon as the program was announced and the criteria were published, and particularly this criteria that says the program would focus particularly on those market areas dominated by subsidizing exporters, most buyers around the world understood precisely what that meant.

I can tell you, and I reflected on this yesterday afternoon and yesterday evening, that I have had no word from any buying country, save one, evidencing to me any confusion over this criteria.

Now, as I say, I have heard those allegations. Only time will prove whether they are accurate, but I think much of the reason for them relates to confusion in the very early period of the program.

Mr. ROBERTS. Could you tell the subcommittee what the one country is, that one country that you mentioned?

Mr. AMSTUTZ. Yes, Mr. Roberts. Clearly, the Soviet Union has wanted to be the beneficiary of our subsidy program. We have pointed out to them what the criteria of the program are and pointed out to them that since they buy 80 percent of their grain from nonsubsidizing exporters, they do not fulfill the criteria.

They have attempted to induce us to subsidize wheat, not down to the level at which the European Community sells wheat, but down to the level at which the Argentines sell wheat. They have attempted to induce us to, in effect, displace Argentine wheat with United States wheat subsidized down to those levels, and we have told them that that just does not fulfill the criteria of the program. Furthermore, it doesn't fulfill the tenets of the agreement which we made with the Soviet Union.

We were, of course, disappointed—that is a mild word—that the Soviet Union did not fulfill its agreement obligations this past year and we will, of course, be discussing this with the Soviet Union very shortly when we meet with them for our biannual consultations.

Mr. ROBERTS. Mr. Chairman, my time has expired, but I do have a followup question that is very pertinent to the Secretary's statement. If I might be permitted to ask that, and then I would like to reserve some time when we come back around. Would that be permissible with you, sir, and with my colleagues?

Mr. BEDELL. Without objection.

Mr. ROBERTS. This is a natural follow up question to that, and we have had some considerable discussion personally in regard to this particular issue. And let the record show that Secretary Amstutz has worked long and hard and largely been the person responsible for whatever we have been able to achieve with the LTA with the Soviet Union.

However, given your statement, this is the question that I have. Is the BICEP Program hurting the long-term agreement with the Soviet Union? Isn't the Soviet Union using the BICEP—and perhaps rightly so—as an excuse not to purchase grain?

Mr. AMSTUTZ. Mr. Roberts, I think you use a very key word. I think in my own personal judgment, you have correctly stated it in your question. I think the Soviet Union is using it as an excuse.

In my own judgment, the reason why the Soviet Union did not fulfill the agreement goes deeper than that. During the negotiations on the LTA, our toughest negotiations were regarding the inclusion of wheat in the LTA. I think that most people will understand why that was one of the most difficult negotiating points. There is a plethora of wheat available from other countries, and I would guess that from the Soviet side, as little wheat commitment they could get away with from the United States the better off the Soviet Union would be. I can understand that.

It is important to note that we insisted on the inclusion of wheat to the minimum quantity that we have. Otherwise, Mr. Roberts, there would have been no LTA. And the Soviet Union knew that at the time we negotiated the agreement, and the Soviet Union knows it now.

Mr. Roberts. I thank the chairman and my colleagues for their consideration and would like to reserve some time on the second go around, Mr. Chairman, for some follow up questions.

Mr. Bedell. Mr. Penny.

Mr. Penny. Thank you, Mr. Chairman.

You have recently revised estimates for grain exports for this year. Do you have the current statistics on where we are headed as compared to last year?

Mr. Amstutz. I am never sure, Mr. Penny, that I have the latest figures. I believe I have the latest figures with me.

Mr. Penny. Can you share those?

Mr. Amstutz. Excuse me?

Mr. Penny. Can you share those figures?

Mr. Amstutz. Yes; in wheat, the estimate for what exports were in this year just ended are 30.7 million tons which is 31.7 percent of world trade. The forecast that I have for the new year, the 1985-86 year, 31 million tons or 33.4 percent of world trade.

In coarse grains, 1984-85, 55.6 million tons of which 47 million tons are corn. Coarse grains in toto are 54.8 percent of world trade. In 1985-86, the estimate is 49.7 million tons which represents 53.3 percent of world trade.

I have some rice and cotton figures, too, if you would like them.

Mr. Penny. No; that is fine. I want to stick with grain.

To what do you attribute the decline in the volume of our grain sales?

Mr. Amstutz. By and large, two major areas. In wheat, our current estimates are that world trade in 1985-86 will be 92.7 million tons. In the year just ended, world trade was 96.9 million tons, and the year before that world trade was 108.1 million tons.

So, one, in recent years, in wheat we have a decline in overall world trade. So, that negatively impacts on tonnage.

Second, we have a real competitive problem in wheat—and other commodities too—but it is certainly very pronounced in wheat.

In coarse grains, we have a similar situation in world trade. The current estimates we have are that world trade in coarse grains this year, this 1985-86 year, will be 93.3 million tons versus 101.5 million tons last year. So, here again we have an erosion in the total size of the pie and, of course, competitive problems.

Now, why is the pie getting smaller in these years that we have been referring to? I would say there are two general reasons for that, and they relate to more indigenous production, more production in consuming areas, and, second, we continue to be plagued by a paucity of buying power. I have frequently said that one of the major problems facing agriculture is that potential demand is not being converted into actual demand because there is a problem in buying power, and this buying power problem relates to the general economic vitality of countries all over the world but, particularly, less developed countries; less developed countries where, with better economic conditions, we will see far better demand.

The reason for the lack of buying power or the lack of economic vitality in Third World countries is manyfold, but, by and large, they are not generating enough foreign exchange to service debt, to pay for internal development, and to pay for imports. As long as they are in that problem, that squeeze, they curtail their manifestation of demand.

Mr. PENNY. If I might proceed, I have a couple questions on world price. How do you determine the world price for grain?

Mr. AMSTUTZ. I said yesterday to some of your colleagues that unlike in this country where grain frequently trades on exchange or in organized markets of some form, there is no newspaper column one can look at and say at what price corn is trading around the world. By and large, world price is determined in negotiating processes on an ongoing basis between sellers and buyers.

As I say, it is really not published anywhere, and it is a function of supply-and-demand reality in the minds of the buyers and the sellers as they negotiate. In our process of determining world price in this entire price review process we have for our Export Enhancement Program, we literally use all sources available to us. We use information we get from sellers, from buyers, from countries, from our own intelligence, and I view it like a jigsaw puzzle, Mr. Penny. You are always gathering data and putting it together on a continuing basis, because world markets are very liquid and forever changing.

As I say, unfortunately, from the standpoint of anyone trying to run any kind of a program, there is no published price in this regard.

Mr. PENNY. That makes it very difficult, then, for us to design a farm program that has a price support consistent with world prices, doesn't it?

Mr. AMSTUTZ. Well, it does and it doesn't. There is no question that you have to sort of work in retrospect. Everybody that talks of a support price as a percent of market, however they discuss it, I think everybody's formula is predicated on what has happened in the past and, therefore, is a matter of record as opposed to what will come ahead.

So, in determining that, there is a certain thesis that says, well, in a sense, past is prolog and we will base our program writing decisions on the most recent past. But there is no accurate way to forecast.

Mr. PENNY. If we see declining demand, how much can we accomplish by lowering the price of our sales below the price of our competitors? Given there is declining demand out there are we really competing for a larger share of a declining market? Is that what your goal is at the USDA?

Mr. AMSTUTZ. Well, unless one wants to assume major crop shortfalls in major producing and consuming areas, the outlook, for sure, is that in the years ahead, global grain markets are going to become ever more competitive.

The fact is—and these precise figures we have talked of the last several years, and let me try to speak figuratively over a broader period of time. What is happening in world markets? Let me talk of three lines. I just ask you to visualize these.

World production of grain is growing at a more rapid rate than world consumption, and world consumption is growing at a more rapid rate than world trade. That last one is very significant, because we are used to a pattern where world trade grows more rapidly than world consumption. That has changed. The changes are because of China. The changes are because of India, and you can look all over the world where indigenous production in chronic import areas has gone up.

So, that fact of production growing at a more rapid rate than consumption and consumption growing at a more rapid rate than trade spells out competition and spells out a competitive situation. We have contended that a major problem we have in our current environment here, in our current farm programs, is that we are holding a price umbrella over other countries. The higher our support prices are relative to world market realities, the more indirect production incentive we give to other producing countries and other surplus producing countries that provide export subsidies. We even make the subsidization manageable because we limit the amount of subsidy they have to give.

So, by pricing ourselves via our programs at competitive levels, we remove unrealistic incentives for production elsewhere.

Now, Mr. Penny, I don't think for a minute that the Argentines are going to stop producing wheat. I don't think for a minute that the Brazilians are going to stop producing soybeans. And I would never want to convey any kind of a feeling like that to anyone.

There are parts of the world where unrealistic incentives for production are in force, and I think we can address those via our own actions over here and significantly lower that gap between production and the reality of demand.

Then, the other end of the equation—I apologize for taking so long to answer your question, but you asked the question—is policies that this country endorses must favor economic growth around the world, because it is the world that is the buyer for our farmers. And there is huge untapped demand out there if we can do something about buying power. So, that is the other end of the equation. It is enormously important.

Mr. PENNY. Mr. Chairman, I have other questions, but I have used more than my time. I had better relinquish.

Mr. BEDELL. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I am sorry I missed your statement, Mr. Amstutz, but I assure you I will read it, and I can pretty well imagine what it contains. So, we will go on from there.

I think you have limited enthusiasm for the BICEP Program as a concept, and so do I, but we have it for awhile, and it would seem to me that it would make a great deal of sense to enlarge, to some extent at least, the number of countries that are designated as initiatives.

I don't want to belabor the point at all, because there are other things I want to talk about, but it would seem to me that particularly good targets at this point would be the former French colonies on the West Coast of Africa, particularly the Ivory Coast, Cameroon, Gabon. They clearly are monopoly markets of the French. They have been for years and years. We have never gotten a toe hold in there. I would think that while they are small but significant markets, this is a unique opportunity to begin to get a toe hold in those, and I would certainly urge you to give some consideration to very early inclusion of those countries and those like them that are scattered around the world but particularly in the West Coast of Africa.

I really don't want to spend any time on that. I am just making a statement to you on that. Do you want to respond?

Mr. AMSTUTZ. Yes; I will. Currently in our caldron of initiatives we are considering and working on, the total number in there is 60-some possibilities including some 17 different commodities. I am hesitant to talk specifically about any initiatives yet unannounced for reasons I think are clear.

However, let me say to you, Mr. Evans, I share your view. Early on, we commenced work in that area.

Mr. EVANS of Iowa. Thank you. Let's go on to what we might do for an encore within the framework of the farm legislation that you are likely to get and in the period of time until that farm legislation becomes effective which is going to be for some time.

We are faced with the problem, and you know it and I know it and I guess probably everybody in this room knows it, of accumulating in Government hands huge stocks of surpluses which we don't want to have in Government hands. We would like to move it into the world commercial channels.

It is my understanding that you in the administration have limited enthusiasm for a marketing loan concept, principally because you have no control over the budget impact. Is that a correct statement?

Mr. AMSTUTZ. That is right.

Mr. EVANS of Iowa. It would seem to me there are some variations on that theme that might achieve the same kind of results even within present law, and these I would like to explore with you. Just to give you an example, would it make any sense to go to your county ASCS committees throughout the year, on a monthly basis, and say that within certain limits on the bushels or the fractions that they have in stocks within that county you would announce to all the producers who have stocks under loan, that during that month that county office would accept bids from the producers in the county as to how many bonus bushels of a commodity they would require in order to redeem during that month some of the grain that they have under loan nonforfeited at the full loan value plus accumulated interest?

This would let the market to some extent determine how rapidly those surplus stocks were moving back into channels. It would leave in the hands of USDA some control in the matter because you could regulate how much you were going to move back into the market across the country in any given month. And it would let you put a limit on the maximum bonus that you were willing to accept if you wished to do that. Yet, it would let the market determine to what countries in the world those stocks went and at what price.

Now, I have taken all of my time to state the question, I am sorry to say——

Mr. ROBERTS. Mr. Chairman, I ask unanimous consent the gentleman be granted 2 additional minutes.

Mr. BEDELL. Without objection.

Mr. Evans of Iowa. Is something like that more philosophically acceptable and more practical than the route that we have been going, given the framework of laws that you are liable to be saddled with, if I may use that expression, for the next several years? That sort of an approach would not increase the exposure of the Government to deficiency payments in the normal sense of the word.

Mr. Amstutz. Well, in a sense, it would. That is one of the problems with it, Mr. Evans. I understand what you are getting at, and, as I listen to you state it, philosophically, I have no problem with it. And I ask your indulgence that after this hearing I can do some more thinking about it and perhaps you and I can visit more about it and get more specific.

There can be a problem along the lines of your last comment. As we use inventory that is not on the market and put it onto the market, it tends to be price depressing. In effect, by doing that, we are sort of countering what our programs are existent to do, to remove grain from the market to enhance price.

I know that there is a degree of confusion about the effect on price of stocks in the farmer-owned reserve and in CCC inventory. Some people opine that those stocks have a price effect in this whole supply-demand equation as well as so-called free supplies. I beg to differ. A lot of people like to say how our farm programs have not worked in the past.

One way in which they have worked—I would suggest at counterobjectives to what we are trying to do sometimes—but in that our programs have been designed to raise prices in the United States relative to what they would have been without the programs, they have been effective in doing that. Now, that creates some other problems.

However, when CCC inventories are indeed removed from the market, they are truly not involved in this ongoing equation of determining price because of supply and demand. When you put them on the market, it has a price-depressing effect. As it has a price-depressing effect, it can increase the exposure to deficiency payments.

Mr. Evans of Iowa. I agree with you. I would only comment that an approach like that at least leaves some control in the hands of the Department of Agriculture and saddles you perhaps with the decision on a monthly basis of making a decision on how much of these might be moved back into the market at any time and gives you the freedom to do that.

Mr. Amstutz. I would like to visit with you more about that.

Mr. Evans of Iowa. Well, I would like to visit with you more, too, and we will do that. I thank the chairman for allowing me——

Mr. Penny. Would the gentleman yield just for a moment? I simply wanted to make a statement, because it baffles me that the administration seems to have such an objection to that approach because they claim it would depress prices when, in fact, they have been here begging for us to lower those loan rates and take those prices down.

Mr. Evans of Iowa. Yes; thank you, Mr. Chairman.

Mr. Bedell. Mr. Combest.

Mr. COMBEST. Mr. Secretary, I also apologize for not being here for your statement.

Assuming, and I think we can all make a fairly reasonable assumption that USDA or Commodity Credit is going to end up with most of the 1985 grain crop through the loan program. Do you have any plans as to what you are going to do with this?

Mr. AMSTUTZ. None of us knows for sure what the new farm legislation will say right now. I have always said, Mr. Combest, that if the new bill under which we operate does indeed allow our commodities to flow into market channels and, therefore, allows us to move more of our goods in all market areas, not only here but overseas, and finally stops, therefore, this process of buildup in Government inventories, over time we will find ways to get rid of these inventories via domestic food programs, and title II type shipments to hungry people around the world.

The problem is stopping the buildup in that inventory. If we stop the buildup, it is manageable and we can handle it. If we add more to the inventory every year than we get rid of via these various distribution processes, we are in an unending, never winning battle. If we stop the process, I have no concerns.

Mr. COMBEST. The Argentines have reportedly last week sold wheat to the Soviets for $88 per metric ton which would turn out to be about $2.10 per bushel. Under the Foley-Marlenee provisions that are allowed in the farm bill as passed by the House, the Secretary, at his discretion, could lower the wheat loan to $2.47 per bushel which is 37 cents above what the Argentines sold to the Soviets.

Do you think that that level will allow us to do any market clearing to allow us to do an international movement, or are we going to end up seeing all that in the loan?

Mr. AMSTUTZ. I said, Mr. Combest, before you came in the room that I didn't think for a minute we would stop wheat production in Argentina regardless of our problems, but nor, Mr. Combest, in my judgment, can Argentina produce all the wheat that is needed in the world market.

I don't think it is necessary for us to be priced below the cheapest source of supply. I think it is more important for us to be priced at a level where we are removing production incentives from other higher cost areas than Argentina and providing less production incentives.

A lot of us deplore the price levels at which Argentina sells its grain, and a lot of us opine on occasion that they could really get higher prices for it than they do, but they are in a unique situation. Their currency is devaluing constantly, so they are in a situation where they are eager to convert assets into non-Argentine currencies as quickly as possible. Of course, there is a powerful incentive for them to do that continually when they have a crop to sell.

I don't think it is a question of competing with the lowest cost producer.

Mr. COMBEST. When we are talking about competing with other countries, in terms of overall subsidies, when we are talking about farmers and producers, which nations offer the most subsidies that we end up competing with?

Mr. AMSTUTZ. You are talking about the overall support to agriculture?

Mr. COMBEST. Yes, sir.

Mr. AMSTUTZ. In my judgment, the latest figures will show that Japan leads the parade, and I think the United States will come in second, and the European Community as a group will come in third.

Mr. COMBEST. Are your estimates there, Mr. Secretary, based on—and I realize when we are looking at variety of crops that the U.S. exports to other countries and overall you have grain, you have cotton and you have other things.

Mr. AMSTUTZ. That is correct, yes, sir.

Mr. COMBEST. Can we get figures that would be based in terms of United States dollars of what per pound or per bushel—and I would like to know when you say when the United States comes in there second under Japan, what are the figures you are using in determining that, whether it is just the price support programs, whether we include the GSM-102 moneys and funds, Public Law 480 Programs and funds, all of those.

Mr. AMSTUTZ. No; those are not included, as a matter of fact.

Mr. COMBEST. You are speaking from the United States strictly from the standpoint of loans and/or targets or deficiency payment only?

Mr. AMSTUTZ. Yes; but included in there are things like our dairy program. I include everything, support to agriculture. We will send up to you what we have. We have hard data, in quotes. The last I saw was through 1982. It is difficult to collect all this data from all these countries, but we will send you what we have.

Mr. COMBEST. I think it would be interesting, and as much as possible the breakdown, so that we know exactly how those subsidies fall and how they come in, whether they are what we would consider direct or indirect.

I am out of time and thank you, sir.

Mr. BEDELL. Mr. de la Garza, did you have any comments? Mr. Chairman, do you have any comments to make?

The CHAIRMAN. Thank you, no, Mr. Chairman, except to say that I am glad we are having this oversight hearing. I hope it will be very helpful and that we can continue our deliberations on how we can be independent with the world situation, the real world situation, and what we need to do within the strength that we have budgeted and how we can live in the community of nations.

As always, we appreciate the Secretary visiting. He and I don't agree 100 percent, but basically we agree with the end result we want to have.

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Mr. BEDELL. Mr. Amstutz, I am rather shocked at your recent statement. Are the prices of agricultural products in Europe, domestic prices, higher or lower than in the United States generally?

Mr. AMSTUTZ. You mean the individual support prices?

Mr. BEDELL. No; the prices that farmers receive. Are they higher or lower in Europe or the United States?

Mr. AMSTUTZ. They are higher because in the specific support prices are higher. The numbers I was giving Mr. Combest were total numbers.

Mr. **Bedell**. That is my question. Do they undersell us in the world market?

Mr. **Amstutz**. In some areas, yes, sir.

Mr. **Bedell**. Do they undersell us in wheat?

Mr. **Amstutz**. Sure.

Mr. **Bedell**. So, their domestic prices are higher, their world prices are lower, and you say our subsidies are bigger. I just have to tell you that whoever is figuring those figures better go back to the board again.

If that is the case, then doesn't it make sense for us to decide to do what they are doing? Because if they are subsidizing less and their farmers are getting more and they are beating us in the world market, it seems to me that may be what we ought to do. Is there some reason you don't agree with that?

Mr. **Amstutz**. That is what we are targeting, Mr. Chairman, in the Export Enhancement Program. We are targeting those areas where the European Community is engaged in subsidizing exports.

Mr. **Bedell**. And what is the biggest European customer for wheat?

Mr. **Amstutz**. I don't know that I have that right here.

Mr. **Bedell**. I can tell you that 30 percent of European wheat is exported to the Soviet Union. How much of it was exported to the Soviet Union in 1980?

Mr. **Amstutz**. I think I can find those figures.

Mr. **Bedell**. Well, can I read to you the testimony from the GAO? Let me read to you from the GAO: "Furthermore, the probability of targeting the Soviet Union which purchased approximately one-third of the European Community's wheat exports last year is remote because of foreign policy considerations. This is a market in which the community essentially did not participate in 1980."

Now, you testified, Mr. Amstutz, with which most of us disagreed, but you testified, "Sales must be directed at specific markets, particularly those where competitors subsidize their exports." If the European Economic Community is subsidizing their exports and they are the ones you are going after, and if 30 percent of their exports go to the Soviet Union and they didn't sell anything to the Soviet Union previously, how is it you say that we can't do anything about the Soviet Union, our biggest customer for the last 2 years in wheat, No. 1?

Mr. **Amstutz**. Eighty percent of their purchases were made from nonsubsidizing exporters.

Mr. **Bedell**. No; we are not questioning that. You are going after the European Economic Community, I understand.

Mr. **Amstutz**. If we are going——

Mr. **Bedell**. Let me finish, please. Don't interrupt me. I am not interrupting you.

If that is the case, and if indeed 30 percent of the European Economic Community's goes to one customer which is our biggest customer, and you are targeting the European Economic Community, it doesn't matter where that customer buys it. It is what the European Community is doing. If 30 percent of theirs now goes to the Soviet Union, and if none of it went in 1980, and if that is your goal, I don't see how you can possibly say that who we are going to target is these countries of Morocco, Egypt, Algeria, and Yemen, and we are going to say that our No. 1 customer who is buying 30 percent of the grain from that customer who is our biggest concern we are going to forget about them.

Now, it is your turn.

Mr. AMSTUTZ. In our judgment, the Soviet Union does not fulfill the criteria, Mr. Chairman, as I have said. Eighty percent of its purchases are from nonsubsidizing suppliers in total.

Mr. BEDELL. What do you consider market-clearing levels, Mr. Amstutz?

Mr. AMSTUTZ. I tried to address that in the answer to Mr. Penny's question. Market-clearing levels are where it literally trades for various products, and it is an ongoing, continually changing world out there.

Mr. BEDELL. Does it have to do with the world?

Mr. AMSTUTZ. Sure.

Mr. BEDELL. Most of us in business would feel market-clearing levels are levels which make us competitive in the market in which we compete. Most of us would think that we compete in a world market. Most of us would think that market-clearing levels, then, are prices that are going to make us competitive in that world market. And most of us would think that to say that to be competitive in that world market, we are not going to concern ourselves with most of the producers. We are going to only concern ourselves with one of the producers, and we are going to say we are not going to do anything that would affect the Argentines, and we are not going to try to be competitive with them. We are going to let them go ahead and take our markets away from us.

Do you consider world clearing prices that say that we are going to let some customers go ahead and continue to take our business away from us?

Mr. AMSTUTZ. The Prime Minister of Singapore yesterday addressed a joint session of the Congress. He gave a rather impassioned speech, the thrust of which was that protectionism was really, in the final analysis, a war and peace question.

A principal reason why we focus our program, our Export Enhancement Program, on markets that are dominated by subsidizing exporters, namely, the European Community, and why we don't want our program to focus on markets dominated by nonsubsidizing exporters relates to this overall question of protectionism and what we are trying to achieve around the world in creating fair trade practices.

Now, I know that many people are frustrated by the lack of speed with which we are able to bring some sense into world trading systems. We are frustrated by that, too. I also——

Mr. BEDELL. Mr. Amstutz, I promised I wouldn't interrupt you, but my time is out. We are not talking about protectionism, for crying out loud. We are talking about competing in the world market. We are not trying to keep people from coming in here. We are questioning whether we are going to compete and try to sell our goods in the world market. We can talk about the Prime Minister of Singapore and protectionism and everything else to try to diffuse the issue. The issue is, are we going to have a program where we are going to try to sell our products, as what you said originally, the CCC stocks in the form of bonus be used to make U.S. exports competitive in export markets?

That is what we are trying to do. We are not here to talk about protectionism. We are not doing that. The question is, Are we going to compete? And the question is, Are we going to compete with our European Economic Community? Are we going to say to them, even though you are selling 30 percent of your grain to our biggest customer, we are not going to do anything about that. We are not going to do anything about that. We are going to pick these little tiny countries and we are going to do something about it.

If I might continue, because it is my time, and I am disturbed as you can see, because what we had the day before yesterday was people coming before us and saying, get rid of the program because the way they are administering it down at the Department, we would be a lot better off without it, because what they are doing is picking some little countries where, by the way, we are not even getting the customers on some of them because the Europeans are still beating us in that regard, and we are antagonizing our biggest customer. You have admitted our biggest customer has complained about it, the biggest customer we have, and we are losing business because of this program.

I don't think it is right for us to have you here and you talk about the Prime Minister of Singapore. We are concerned about a problem. We think we have a devil of a problem, at least, some of us do, and it is terribly disturbing. We went down to your advisory committee, and we are not going to talk about it, but somebody better ask what the purpose of that advisory committee is if you have an advisory committee. Somebody better ask whether the Congress has anything to say about what is done.

You talk about the Senate all the time. It seems to me the House ought to have something to say about what is done, because it should be obvious from what you are seeing here that some of us are concerned. Some of us are extremely concerned about what we see happening. I have to tell you that what you say here doesn't wash when you really get the figures when you say that 30 percent of the exports of the European Community go to the Soviet Union and we are not going to do anything about that. We are still targeting the European Economic Community. We say we want world clearing prices, but we are not going to do anything about what Argentina or other countries charge. We are going to let them take our business away from us.

Mr. Amstutz, there is something wrong here, and our farmers are in trouble. For us to sit here and have you talk about what the Prime Minister of Singapore does is not what we want to hear. And I better shut up, because I am so disturbed I am going to have a heart attack.

Mr. Amstutz. Mr. Chairman, just as you said your time is up, so is mine. As I believe you know, I am now late for an appointment, but let me please finish my response to that previous question, and I will just finish it with one sentence.

Subsidization can be as much a protectionism device as creating a tariff or a quota wall. It can be. Our quest is to tear down barriers. We are committed to that. For us to accomplish that, we need the cooperation of the world community. Last week, we won a victory in Geneva where 90 contracting parties of the GATT have at least not prohibited us from moving ahead with the new round of trade negotiations where agriculture is of key importance. As I say, subsidization can be a form of protectionism.

I appreciate the opportunity to appear before the subcommittee, Mr. Chairman. I am sorry that the time has gone so quickly.

Mr. **Bedell**. What is your situation, because some of the other members had questions.

Mr. **Amstutz**. I have a 10:30 appointment that I have to get prepared for.

Mr. **Bedell**. What are the wishes of the subcommittee?

Mr. **Evans** of Iowa. Could we perhaps continue this discussion another time? I think we have to recognize——

Mr. **Bedell**. Could you come back at another time, Mr. Amstutz?

Mr. **Amstutz**. Sure.

Mr. **Bedell**. Mr. Lamb, could you stay?

Mr. **Lamb**. Yes, sir.

Mr. **Bedell**. What is your wish, Pat?

Mr. **Roberts**. Mr. Chairman, I have several other questions that I think are most pertinent to the BICEP Program, and as I indicated earlier on this whole situation, I have some very strong feelings in this regard. Obviously, Under Secretary Amstutz must leave to follow his own schedule, and it would be my very strong hope that we could continue this hearing sometime at his convenience at the earliest possible time period.

Mr. **Bedell**. Is that agreeable?

Mr. **Penny**. That is fine. I have another committee meeting, and the only other question I had was for Mr. Lamb. If I could get that in.

Mr. **Bedell**. Mr. Lamb can stay for a little bit.

So, Mr. Amstutz, we will schedule a hearing back again since we haven't been able to answer all of the questions that were desired. Thank you very much. Mr. Penny.

Mr. **Penny**. If Mr. Roberts would allow me to interject my question ahead of his time, I would appreciate it, because I do have a markup.

Mr. **Roberts**. Certainly.

Mr. **Penny**. Mr. Lamb, has the State Department calculated what happens to repayment on debt if developing nations get a lower price than their exported grain?

Mr. **Lamb**. No; we have not, Mr. Penny.

Mr. **Penny**. Don't you think that is a pretty important thing to look at, especially in light of the USDA's insistence that we have to have a farm program that allows world market prices to move downward?

Mr. **Lamb**. Well, there are many factors that affect world market prices in grain. Obviously, lower prices received by debt-ridden middle-income LDC's would complicate their debt-service problems, but we have no way of calculating precisely what those effects might be.

Mr. **Penny**. You must, though, on an individual nation basis have some idea of the proportion of income to that nation that is attributed to export sales and how that then translates into their ability to make payments on their debt.

Mr. LAMB. If you are asking me, Mr. Penny, if we have made any calculations of that kind, the answer is not to my knowledge.

Mr. PENNY. OK. I would encourage the Department to take a close look at that and to get in sync with the Department of Agriculture so that you don't find yourselves working at cross purposes here. You may find that the debt burden in those nations increased by the kind of farm policies and world market prices that the administration is working for over at the USDA. I just don't want you to get caught by surprise.

Mr. BEDELL. Thank you, Mr. Penny.

Mr. Roberts.

Mr. ROBERTS. Thank you, Mr. Chairman.

Pardon me, Mr. Lamb. I am going down through some of these questions that I wanted to get on for the record, and I don't want to take your valuable time in asking you a nongermane question. Hopefully, all of our questions are germane to the issue.

I think one of the dilemmas that we face on the subcommittee—I can't remember which witness it was a couple of days ago that responded to my question, but the question that I will paraphrase was this: Rather than a targeted approach, if we mandate that the Secretary of Agriculture and the U.S. Government implement some sort of an export PIK, an export bonus program, an export incentive, whatever you want to call it—I would recommend we don't call it PIK, but at any rate, we will call it something. We will call it BICEP just for the sake of the argument—that we wondered if we have the political muscle, those of us in the ag community, to, that is, subsidize the Soviet Union.

I made the comment that when administrations come and go that we have those in OMB and Treasury and more especially the State Department who want to use the grain in regard to foreign policy purposes. I don't mean by saying that to try to perjure my comments. That is just a given; it has been as long as I can remember.

Would you care to comment on behalf of the State Department in regard to that kind of an effort?

Mr. LAMB. An across the board——

Mr. ROBERTS. Yes.

Mr. LAMB. I think, as far as the administration is concerned, Mr. Roberts, the issues of agricultural economics intervene much before any questions of foreign policy are raised. It was clearly the unanimous view of the Economic Policy Council that established the guidelines for the program that it was, in the administration's view, not in the interests of U.S. agriculture to have an across-the-board subsidy program. So, issues of foreign policy did not really arise in their consideration.

The fundamental questions of agricultural economics clearly have been paramount in my experience in our approach to this program.

Mr. ROBERTS. You are saying that no foreign policy considerations are involved here as to where we would have that subsidy? For that matter, we have many export programs, the GSM-102, the Blended Credit Program, et cetera. It seems to me I recall a year or so ago when we were trying to obtain additional funds for GSM-102, I think it was, and Mr. Evans can refresh my memory, and we were talking about the sale by one cooperative that we wanted to make to Iraq at that particular time, and then all of a sudden we discovered the real problem wasn't OMB. It was somebody sitting down at the National Security Council who determined it was not in our best policy to do that at that particular time regardless of the market. That is what I am getting at.

Mr. LAMB. I certainly wouldn't assert that that sort of thing can never happen, Mr. Roberts. Obviously, at some place in every government, considerations going beyond the interest of a single community or issue do come to bear on administrative positions, but it is very clearly my experience that on this particular question we haven't reached these foreign policy issues.

The administration is quite convinced that an agricultural export subsidy program can be a useful trade policy tool, ought to be executed in that way, and that an across-the-board subsidy program is clearly not in the interests of our own agricultural community.

I know members of the subcommittee and Members of Congress differ with that view, but that is the fundamental difference as I see it.

Mr. ROBERTS. Well, I am not sure I am going to stand up and wave banners like others do on the subcommittee and full committee to say that we need a mandated-across-the-board export subsidy so much as we need to get price competitive with a vehicle like the marketing loan and indirectly I suppose you could say that subsidizes the Soviet Union, but it moves the grain over a shorter period of time.

I want to get there from here. I don't want to ratchet down loan rates over a 5-year period and go through Death Valley days any more. I am sick and tired of being sick and tired. I want to get price competitive. At the same time, I don't want to march a whole generation of farmers off a cliff.

I think what I am hearing from you is that at least in regard to the BICEP Program that you are not making any foreign policy considerations. It is more a policy situation where you determine it is not in the best interests of agriculture. I hope it would remain in that pasture. Maybe we are making a point of it too much. Maybe we don't want to let your higher ups know that we even have the program so they take notice of it.

Mr. LAMB. As a matter of fact, Mr. Roberts, I think that the threat of agricultural subsidies, targeted or across the board, can be very important in trying to bring about the kind of reforms in the international trading system in agriculture that State and all other agencies support.

There is a bit of an irony here. I think that those kinds of programs and the threat of expanding them actually work better and have a better chance of success when our own domestic farm programs have operated to make us more competitive across the board.

Mr. ROBERTS. Mr. Chairman, I would only add one further comment. I want to thank Mr. Lamb for appearing before the subcommittee and I appreciate his time.

I note the chairman's sense of frustration in regard to not only the BICEP Program but our overall trade policy and what is happening to our farmers. I would just make the observation that I share his sense of frustration. I am not going to say that the BICEP Program is mismanaged. I think Secretary Amstutz—and I apologize for making these remarks when he is not here—but I think he is doing a good job given the pasture in which he is fenced in in regard to policy directives. I think perhaps that the program is misdirected.

I have a feeling, Mr. Chairman, that all of us, in looking at the BICEP Program and it became paragraph three in all of our farm speeches in efforts to get the grain moving, that once we got the program due to the budget battle over there in the other body and really that is the nub of it, we were promised—that is in quotes—$2 billion to move our exports under some kind of a program.

BICEP was there and we had to get a budget in order to run the country, albeit we are not doing a very good job, but at any rate we had to get a budget, and the one-vote margin came as the result of one farm State senator who wanted to move our exports. That is how this program was born. And it was born out of frustration and perhaps we were guilty of overexpectations. It has become, instead, a short-term trade policy tool.

Secretary Amstutz does not make those kinds of decisions. He is given that kind of trail to go down, and that is the trail he is going down.

Now, I have a feeling this administration is treating BICEP more or less like the bastard child at a family picnic. He shows up and there he is and everybody is polite about it and he can sit at that table, but everybody wishes he would go away. That is about the size of it.

We have to make a determination, it seems to me, on how on Earth we get price competitive and move this grain over a short term period, or we are going to lose the very guy whose job it is to produce the food and fiber.

That gets into a speech, I guess, but I wanted to share your frustration and indicate that I am just as upset as you are, and I look forward to asking further questions that I think are pertinent to Secretary Amstutz when he is able to come back.

Mr. BEDELL. Thank you, Mr. Roberts.

Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I don't know that I have a great many questions that Mr. Lamb is competent to answer because they lie in other technical fields. I am particularly interested in exploring what is the acceptable band of pricing on any given day. You don't get involved in that, do you at all?

Mr. LAMB. No, sir.

Mr. EVANS of Iowa. Do you help to set the ground rules for how that is established?

Mr. LAMB. No, sir.

Mr. EVANS of Iowa. Does the State Department have anything to do with that?

Mr. LAMB. No, sir.

Mr. EVANS of Iowa. You don't get concerned with whether that price is so low it is going to cause a problem for Argentina or somebody else who has a problem paying their debts or anything of this kind?

Mr. LAMB. No, sir.

Mr. EVANS of Iowa. OK. I will reserve those questions for somebody else, then.

Let's go to the general problem of how an initiative gets approved for a certain nation. Does the State Department take any initiative in suggesting candidate nations? My concern is why is it, after all these months, we only have four nations that are approved? I can sit down and in 5 minutes just off the top of my head write down a list of countries that would seem to me to fit all the criteria. Why is it so slow? Are you using in the State Department in your office encouraging and suggesting, or do you wait until somebody brings up a country at a meeting and then have to go back for 6 weeks to get the Department of State to approve it? How does this work in the Department of State?

Mr. LAMB. Well, the initiatives are developed by USDA. It really takes a close knowledge of the markets in order to do that, the markets and the particular commodities that one wants to move under the program, so all the initiatives have been brought forward by USDA.

I believe the situation is that four programs have been announced, each of which is asking for a full 12 months, but there are other initiatives that have been brought forward by USDA and reviewed on a case-by-case basis by the interagency group that does this, and they have been approved. It is now a matter of the Department of Agriculture working with the prospective client country before moving to the announcement stage, and we have had some preliminary looks at other possible initiatives which we expect USDA to bring forward in coming weeks. So, it is an active, ongoing process.

We have generally been able to respond to these proposals in a relatively short period of time.

Mr. EVANS of Iowa. Do you attempt to do some homework to prepare yourself within the State Department so that if likely candidates come up you can say, well, our answer will be available expeditiously?

Mr. LAMB. Yes, sir. I think we are acquiring a pattern of experience. Although we are not experts in these matters, we now have a better idea of where the effective demand, as Mr. Amstutz put it, lies. There isn't as much out there perhaps as one might think.

Mr. EVANS of Iowa. I would generally agree with that. I think that a lot of the remaining targets are relatively small, but I do think that a lot of them are in areas of relatively rapid population growth, and a number of them are in areas of reasonably sound economies where the prospects of payment are good. Setting aside the limitations of the program, I think we could do far better in prompt approval of more initiatives.

We have a lot of traders out there who would really like to go to work if they were given a license to do so. I would certainly encourage you to do everything you can within the State Department to promote quick decisions on some of these matters.

Can you assure me that that is the case?

Mr. LAMB. Oh, yes, sir.

Mr. EVANS of Iowa. Thank you.

Mr. BEDELL. Mr. Volkmer.

Mr. **VOLKMER**. Yes; I would like to ask a couple of questions in regard to the targeting.

Has the USDA looked at the question of sales to Russia?

Mr. **LAMB**. Yes, sir.

Mr. **VOLKMER**. What is your position on it then?

Mr. **LAMB**. Well, Mr. Amstutz from the USDA addressed that question before you arrived and responded that sales to the U.S.S.R. did not meet the guidelines of the Export Enhancement Program. I have no further information beyond that from the State Department's perspective.

Mr. **VOLKMER**. And I understand, Mr. Chairman, Mr. Amstutz is going to return at a future date so I may ask him at that time?

Mr. **BEDELL**. Yes; he is.

Mr. **VOLKMER**. Some of us were over there in August. When we were meeting with the Assistant Minister for Trade, he specifically brought this up that they didn't see why they, too, couldn't benefit from the program. You know, they can buy French wheat just as easily as Algeria can or Egypt can.

Is that correct? Do you agree that they can buy the French wheat also?

Mr. **LAMB**. They can buy from a wide range of sources.

Mr. **VOLKMER**. Right, but basically from the countries that you have outlined, it is basically Algeria, Egypt, and Morocco as the competition for France, is it not?

Mr. **LAMB**. That is correct.

Mr. **VOLKMER**. I mean, it is not from Australia. It is not from Canada. It is from France.

Mr. **LAMB**. That is right.

Mr. **VOLKMER**. Are you telling us, then, that the French are not in competition with us in Russia?

Mr. **LAMB**. No.

Mr. **VOLKMER**. I really don't understand, Mr. Chairman, the policy of the USDA in this program whatsoever. I think it is the biggest mess I have ever seen in my life. It is a promise to the farmers to do a lot, but really in actuality it does very little.

Mr. **BEDELL**. If the gentleman would yield, the testimony we had the day before yesterday wasn't that it does very little but that it does damage.

Mr. **VOLKMER**. Well, in truth, it is doing damage in some of our reliable markets where we have been able to sell there, and now they are questioning why not us, too.

Mr. **BEDELL**. Mr. Lamb, press reports have indicated that markets occupied by Brazil and Argentina were ruled out as targets of the export bonus program. Do you know if that is accurate or not?

Mr. **LAMB**. I know that we have not selected any sales targets that would specifically displace nonsubsidizing exports. That certainly includes Brazil and Argentina.

Mr. **BEDELL**. Are you acquainted with our general agricultural programs which are that the administration has testified they expect to lower loan rates to what they call market clearing levels? Are you acquainted with that?

Mr. **LAMB**. Yes, sir.

Mr. **BEDELL**. Do you think that would affect Argentina and Brazil or not?

Mr. LAMB. To some extent it would; yes, sir. To what degree, I have no idea.

Mr. BEDELL. Does that seem to be consistent that the administration would say that we ought to lower prices so that we do compete with Argentina and Brazil but if we are going to have an export bonus program we ought to exempt them and not be competitive with them in an export bonus program?

Mr. LAMB. What that is saying in effect, Mr. Chairman, is yes, the U.S. farmer should be able to compete with Brazil, Argentina, or anyone else. The U.S. Government should not compete with nonsubsidizing exporters. I find that quite consistent, yes, sir.

Mr. BEDELL. And you think it is quite different for the U.S. Government to say we are going to lower prices here through loan rates and then we are going to pay the farmers to keep their price up as compared to saying we are going to offer direct subsidy and be competitive, I take it. Is that correct?

Mr. LAMB. Yes, sir.

Mr. BEDELL. Some of us have a hard time understanding that thinking.

Was there a reason why Brazil and Argentina were put off base in terms of this program or exempted from it?

Mr. LAMB. The countries don't figure in the guidelines as Dan Amstutz read them out to you in his testimony, Mr. Chairman. It was very much on the minds of the Cabinet members that addressed this issue. It certainly figured in our discussions in the interagency group that looked at specific proposals. I think that the way the guidelines get to this issue is that fundamentally we are interested in targeting subsidizing competitors.

Argentina is not subsidizing its exports, and we have not been able to identify any remaining Brazilian export subsidies.

Mr. BEDELL. Is the primary focus of the program to see it targeted to countries that were subsidizing exports?

Mr. LAMB. Yes, sir.

Mr. BEDELL. Do you think that is what the Congress thought was happening?

Mr. LAMB. I have no knowledge of the discussions which led to——

Mr. BEDELL. Well, I can tell you what some of us thought. Some of us thought the effort was to try to increase our sales, but apparently that is not the real focus of the program. The focus is to target toward those who are subsidizing exports rather than to try to increase our sales. Is that correct?

Mr. LAMB. I would say that the objectives embrace both concepts, to increase our sales and target subsidizing suppliers.

Mr. BEDELL. And if those involved felt that we were decreasing our sales rather than increasing our sales, what would you think we should do then?

Mr. LAMB. Well, I think they would want to come back and talk to the Congress about it.

Mr. BEDELL. It is not a congressional program; it was the administration's program.

Mr. LAMB. Well, it is a possibility that these subsidy programs can affect prices overall. It is conceivable that overall farm income derived from exports could be affected adversely by such a program.

If you are asking me whether we thought that was happening and what we would do about it, we would certainly want to consult with the Congress about that adverse effect.

Mr. BEDELL. You are aware there was no consulting with the House of Representatives on this program whatsoever as the program was put in?

Mr. LAMB. It was done under rather a short timeframe, Mr. Chairman. That is all I personally know about it.

Mr. BEDELL. Well, it was done over many days. It doesn't take very long to talk to somebody. You are aware that the House of Representatives was completely excluded from any consideration in this program as to what it was to be and how it was to be done and whether or not it was to be done, are you?

Mr. LAMB. I know that now, sir.

Mr. ROBERTS. Would the chairman yield?

Mr. BEDELL. I would be glad to yield.

Mr. ROBERTS. I think it was sort of an evenhanded approach, because I can recall when the administration came up to give us the briefing on the Payment-In-Kind Program, there were some Senators who were called over to our side and were not aware of the full details, and we were briefed on that. So, I think it was only fair that in order to get a budget over there, we came up with BICEP, and now we are finding out about it a year later.

Mr. EVANS of Iowa. Will the gentleman yield to me on that?

Mr. BEDELL. I would be glad to yield.

Mr. EVANS of Iowa. Well, I would just say I agree with the chairman of the subcommittee, but the good news is that at least we can blame the Senate and not blame this side of the Congress.

Mr. BEDELL. Mr. Lamb, was any consideration in these decisions given to the fact that Argentina and Brazil have large loans with some of our commercial banks?

Mr. LAMB. Yes.

Mr. BEDELL. And that if we competed with them and they lost sales they might have more trouble paying those loans back?

Mr. LAMB. Well, I am sure that was a factor in the back of peoples' minds. To what extent it was articulated I really am not sure. The factor that I would put the most weight on is, that in general, to expect these countries to service and manage their debt and eventually resume economic growth, they are going to have to export. It is a fact of policy that we and the International Monetary Fund press on those countries.

It would be counterproductive it seems to me for us to have a program that works at cross-purposes with the health of the international financial system.

Mr. EVANS of Iowa. Will the gentleman yield to me again?

Mr. BEDELL. I would be glad to yield.

Mr. EVANS of Iowa. On that point, Mr. Lamb, I think one of the witnesses yesterday made an extremely good short statement. I think it was Mr. Bailey of the Corn Growers. He said the real question right now comes down to who is going to be able to pay their debts and who is not.

Based on the policy that we have been following, it has been slanted toward letting the developing countries pay their debts.

The other factor in this question is whether the farmer can pay his debts in this country. There is a tradeoff between the two. There isn't any question about that. And because of persisting in the policies of favoring the paying off of debts by some of the developing countries, we, including you, have got a tremendous problem in this country. You have one of the largest financial institutions in this country that is essentially broke. The $70 to $80 billion farm credit bank is broke, and it is in large measure because of this policy of saying, "Hey, we have to make sure that the developing countries pay their debts."

You better look at the problem of paying debts within this country within the agricultural sector, and that better become a major factor in deciding where in the world you are going to go on this business of who pays their debts. There are some people close at home who are exactly on the other side of this equation, and they have been getting the short end of the stick, and we are going to pay dearly for it in the economy of this country in the months ahead.

Mr. ROBERTS. Would the chairman yield?

Mr. BEDELL. Certainly.

Mr. ROBERTS. This gets back to my question in regard to foreign policy considerations. I am not sure this fits under foreign policy, but it certainly fits under international economic policy as determined by those in the State Department and others on what we are doing. I want to associate myself with the comments by my friend and colleague from Iowa.

I don't represent Argentina. I represent 58 counties out there on the prairie going through a very difficult time, and we go on a district tour every summer. Last August, I went to all 58 at the county courthouses. That is 4,000 miles. I had 3,700 people show up on the tour which is a record, but, more important, I was meeting not only with people from the Farm Credit System but with bankers in our small commercial banks in secret saying let me talk to you; I have dire circumstances here. I have bank examiners in my bank and I am not worth *x*. I am worth *x* minus, and I have to foreclose on the good farmer, not the guy who is out there prostate in the field, et cetera. It becomes a very grim kind of situation.

Then, at the meetings at the courthouse, what worries me is we have people standing up and saying "Why on Earth are we spending $1 of foreign assistance, military, economic, AID, overseas relief," you name it. And you get into a real protectionist, nationalistic kind of mood of let's help our own people first.

That is the thing that I think is so dangerous in addition to the economic situation, and so my response was, yet, it is a little convoluted, to say the least, when we are extending AID funds and IMF and whatever to let Argentina or to enable Argentina to buildup their infrastructure to protect their economy so they don't default on a loan so we don't get into a real problem worldwide economically which would be to all of our adverse interests.

I know that, but when we have the perception that we are not at least treating our world financial lending structure with the same kind of forebearance, if you will, or concern, we are getting into a very dangerous mood in this country.

I am not asking a question; I am making a speech. I apologize for that, but I want you aware of the frustration and the blood pressure that we have on this issue. I can tell you right now most farm State representatives when it comes to foreign appropriations or State Department appropriations or whatever appropriations that you are associated with are voting no just as a protest for this kind of a treatment.

Now, if I go further with that and I say that we have a BICEP Program and the BICEP Program is to use our surplus commodities to get our grain moving, I said, well, that is not quite right now. Because we had hearings on that, and what we have determined in the best interests of our country and the international world economic order and all of those things, all of those variables, we are using BICEP as a short-term trade policy tool to try to convince President Mitterand to come back to the GATT negotiations and we are trying to offset that as a trade policy tool.

But we are not going to do anything with Argentina, because Argentina is in tough shape and they have to pay back their loans. Yet, just a couple of weeks ago, we understood that Argentina made a deal with the Soviet Union to purchase grain at $2.10. Yet, here comes the administration saying we have to become market competitive in order to get back and win our market shares. At $2.10? We won't have anybody out there.

Now, you have a long-winded speech which is sort of a venting of the spleen, but you are putting the State Department and all that you hold very dear and all of the good work that you are doing, you are putting it right up there at a crossroads kind of situation in farm country where we are not going to have any support for what you are trying to do.

Mr. **Lamb**. I understand very well what you are saying, Mr. Roberts, and you, too, Mr. Evans, but I am very concerned that one sets up a false kind of dilemma or choice with picking one set of banks and one credit system to save versus another bank which has lent abroad versus banks that have lent to our own farming community. I think that is not the correct way to look at the situation although I can certainly understand why farmers would find the complex interrelationships that we have to deal with a bit uncomfortable to grapple with.

Clearly, what we are doing with respect to the international financial system is designed in the first instance to preserve our existing global farm markets and to permit those markets eventually to resume growth. It is not a choice of favoring Argentina versus favoring Kansas. That is not certainly the policy that we follow, nor is it a concept that I could accept.

To the extent that we conduct our foreign economic policy in a way that is designed to enable developing countries to service their debt and resume growth, it is a contribution to the resumption of growth in global agricultural markets. And we have to look to that objective.

Mr. **Roberts**. I recognize what you are saying, Mr. Lamb, and I don't really quarrel with it in the overall picture. I am just telling you that the frustration on the part of our individual producers and their representative is such that I may advocate we secede from the Union and become eligible for some of your assistance.

Mr. VOLKMER. Will the gentleman yield?

Mr. BEDELL. I yield to the gentleman from Missouri.

Mr. VOLKMER. Mr. Lamb, I think what the gentleman from Kansas and the gentleman from Iowa are trying to address is something that is real and that is a perception, at least, in the Midwest of what is going on. That perception is brought about by things—these people out there are not in the East and, supposedly, some people in the East have some idea that we in the Midwest really don't know what is going on. They really do, and they can remember such things as the buyout by the CCC when Poland defaulted. They can remember the President to give more money to the IMF. They can see what is going on as far as assistance to other countries.

Then they look at what is happening to themselves, and they see where a mercy credit bill is vetoed by the President. They see no assistance to their local banks, and we have had banks in northern Missouri go under. That is the perception.

Mr. LAMB. I understand.

Mr. VOLKMER. And the same perception exists now with this type of program as to what is actually going on. It is that you want to help others but you don't want to help us.

Mr. LAMB. As an Ohio boy, Mr. Volkmer, I, too, have to work hard sometimes to understand Washington.

Mr. BEDELL. Mr. Lamb, did you participate in these Cabinet-level economic policy council deliberations?

Mr. LAMB. No; I did not, Mr. Chairman.

Mr. BEDELL. You were not in attendance at those?

Mr. LAMB. No, sir.

Mr. BEDELL. We heard that 75 people or something were. Do you know who?

Mr. LAMB. I think there was one, possibly two at the most, from the Department of State.

Mr. BEDELL. I am wondering how we get access to some of the people that participated in that.

Mr. LAMB. I would be happy to check our records and let you know who was there to represent the State Department. The Secretary of State was there.

Mr. ROBERTS. Would the chairman yield?

Mr. BEDELL. Certainly.

Mr. ROBERTS. I think what we are getting at is that—I made the statement here in testimony earlier this week that I thought it was a rather cumbersome process if in fact we are going through who is eligible under the criteria and what tenders are offered and how you select that out and what business we actually do. If in fact that comes in and then is reviewed on a periodic basis, and I asked how many people were involved, and they said six to seven from the interagency task force. I am not even sure that is the proper word. We got into several agencies and we came up to about maybe 50 people. I said I think that is a little cumbersome if we are going to sell some grain.

Mr. LAMB. I see.

Mr. **Roberts**. Most of the witnesses simply agreed. I think that is what we are driving at. If you were a member of that group that meets periodically to determine whether——

Mr. **Lamb**. Yes; I can address that more directly. I participate on that group. I go alone. I have an office that works for me on agricultural policy and food aid issues, approximately 10 officers. They are divided by commodity specialty and area specialty. I would ask them in the first instance to look at a proposal from USDA and give me their views. In addition, we would normally check with the regional offices that might be affected by such a sale.

It is a process that can move very quickly as far as the State Department is concerned.

Mr. **Bedell**. Who is your wheat person, for instance?

Mr. **Lamb**. Mike Goldman.

Mr. **Roberts**. OK. In regard to a tender offer from country X, you ask Mike whether or not in his judgment it meets the criteria as determined by the policy dictates of the administration in regard to the State Department. What is that? What does he tell you? What does he have to determine there as to whether or not this is an acceptable country?

Mr. **Lamb**. Generally, you look at the historical record of sales into that market, our share, the share of subsidizing exports, the share of nonsubsidizing exports. That is essentially the information, some notion of what the country's needs are. The question of additionality has to be addressed. Is this sale going to increase and by what amount our net exports? Usually we are provided with an analysis by USDA of that.

Mr. **Roberts**. That would be my next question. Don't we have folks in the USDA doing that, can have that information like this? Dan Amstutz could reel that off. Why is the State Department involved in that?

Mr. **Lamb**. Why do we what, sir?

Mr. **Roberts**. Why are you involved in that?

Mr. **Lamb**. Actually, we have had very little to say on that particular subject.

Mr. **Roberts**. Good.

I am badgering the witness, Mr. Chairman. I will quit.

Mr. **Bedell**. Mr. Lamb, do you know if Mr. Amstutz is a part of that Cabinet-level Economic Policy Council?

Mr. **Lamb**. Well, Secretary Block would represent the Department at the council itself. Ordinarily, Under Secretary Amstutz would come to our working group and present, on behalf of USDA, the individual sales campaign proposals.

Mr. **Bedell**. Do you brief the State Department representative before he meets on the——

Mr. **Lamb**. On the working group, I am the representative.

Mr. **Bedell**. You are the representative?

Mr. **Lamb**. Yes, sir.

Mr. **Bedell**. Well, is it the working group that determines these policy guidelines, or is it the Cabinet-level group?

Mr. **Lamb**. The Cabinet-level group has determined the guidelines.

Mr. **Bedell**. So, you didn't really have anything to do with deciding whether or not this was going to be targeted at countries that subsidize or whether it is going to be targeted across the board. Is that correct?

Mr. **Lamb**. Well, I might have had something to do with that indirectly in terms of briefing our principals to attend that cabinet meeting.

Mr. **Bedell**. OK. So, you did brief them in that regard as to what their position should be.

Mr. **Lamb**. Yes, sir.

Mr. **Bedell**. And I take it from what you have said that in that briefing, one of the considerations was the economic situation that exists in Argentina and Brazil in terms of their ability to generate capital to pay the loans back.

Mr. **Lamb**. I am not sure that it was, because I regard that as a secondary issue.

Mr. **Bedell**. Well, you did indicate that was one of the issues considered.

Mr. **Lamb**. It is certainly something I support, once raised. I think it makes enormous sense.

Mr. **Bedell**. But that wasn't your testimony. Your testimony was that it was one of the things considered. Did you misstate it——

Mr. **Lamb**. Well, I was talking about my own briefing of Department principals on how this program ought to be operated from our point of view——

Mr. **Bedell**. That is my question. Did you——

Mr. **Lamb**. I am not sure that issue figured in that briefing, because it would necessarily have been reached. If it had been reached, we would have talked about it, but our concern was it be used primarily as a trade policy instrument targeted at subsidizing suppliers.

Mr. **Bedell**. Are you testifying now that you do not know whether that was a consideration or not?

Mr. **Lamb**. My understanding is that it was a consideration, and I have no difficulty with it at all, as I had stated previously. I think it makes sense.

Mr. **Bedell**. Where did you get that understanding that that was one of the considerations?

Mr. **Lamb**. I am not sure.

Mr. **Bedell**. Do you know whether the effect of this program upon lenders in the United States was considered as an issue?

Mr. **Lamb**. I do not believe so, Mr. Chairman. I don't know that for a fact.

Mr. **Bedell**. Your belief is that it was considered for Argentina and Brazil but your belief is that it was probably not considered as far as our domestic lenders are concerned?

Mr. **Lamb**. That is correct, Mr. Chairman.

Mr. **Bedell**. I appreciate that very much.

Thank you very much for your testimony and for staying with us here, Mr. Lamb.

Mr. **Lamb**. Thank you, Mr. Chairman.

Mr. **Bedell**. The subcommittee stands adjourned.

[Whereupon, at 10:50 a.m., the subcommittee recessed, to reconvene subject to the call of the Chair.]

REVIEW OF THE EXPORT ENHANCEMENT PROGRAM ANNOUNCED BY THE U.S. DEPARTMENT OF AGRICULTURE

TUESDAY, NOVEMBER 5, 1985

House of Representatives,
Subcommittee on Department Operations,
Research, and Foreign Agriculture,
Committee on Agriculture,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 1302, Longworth House Office Building, Hon. Berkley Bedell (chairman of the subcommittee) presiding.

Present: Representatives Volkmer, Roberts, Gunderson, and Evans of Iowa.

Also present: Representative Bereuter.

Staff present: Phillip L. Fraas, counsel; John E. Hogan, minority counsel; Glenda L. Temple, clerk; Bernard Brenner, Timothy J. Galvin, Diane Sligar, and Gary R. Mitchell.

Mr. **Bedell**. The subcommittee will come to order.

Our first witness today is the Honorable Doug Bereuter, a Member of Congress, our colleague from the State of Nebraska.

We are glad to have you with us, Doug. You may proceed.

STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. **Bereuter**. Thank you, Mr. Chairman.

I am sorry to keep this distinguished body waiting. This is a first. You are right on time.

Good morning. For the second time in less than a week, I appreciate having the opportunity to come before you on matters relating to agricultural trade. I not only wish to thank the subcommittee for the opportunity to be here, but I also commend all the members of the House Agriculture Committee for the diligence, hard work, and overtime it has been putting in to solve our agricultural problems.

I think any of us who represent agricultural areas realize that we must take a comprehensive approach toward solving our problems in agriculture. You are to be commended for utilizing this time between debates on the 1985 farm bill to move forward with hearings on other issues and legislation which will improve our agricultural economy.

The continuation of this hearing on the BICEP Program demonstrates the serious intent by this subcommittee and Congress to address the problems we face in three arenas: One, mounting domestic surpluses; two, declining U.S. exports of agricultural commodities; and three, continuing unfair trading practices by our competitors overseas. Hopefully, the BICEP Program, if properly administered, can be one means of addressing all of these issues.

The most immediate concern is perhaps the problem with surpluses and what to do with them. Anyone who has traveled through the Midwest this year realizes that we will have a bumper crop. Last week, I began receiving telephone calls in my office from several elevator operators in Nebraska who told me that they were quickly reaching their full capacity. In many communities, hundreds of thousands of bushels of corn are being stored on the streets, and I would expect that it will be several more weeks before local elevators will have the capacity for moving the grain into more secure storage. Of course, we are experiencing substantial rainy weather at this point, so the spoilage potential is high.

While we give thanks for this abundant harvest, we must also recognize that it is a mixed blessing for not only farmers, but also the Federal Government. As these surpluses increase, the prospect for higher commodity prices diminish. What we face today portends both lower income for farmers, and more expense to the CCC as these commodities move into storage.

To get down to some detail. Earlier this year, I think both Congress and the administration recognized what would be happening when this year's crop was harvested. While I appreciate the administration undertaking this program, I don't think it has been implemented with any great degree of enthusiasm.

We are all aware that there has been disagreement within the Department over the BICEP Program from the beginning. Although I have great respect for the gentleman who is with us today from the Department—Mr. Amstutz—we also know that he was one of the leading opponents of this program from the start.

While most people favor the concept of an export PIK Program, debate continues over the extent and applicability of the program. We are faced essentially with two options:

One, target the program toward specific countries or markets; or two, apply the program across the board for all customers of U.S. agricultural products regardless of whether they are current or potential customers.

As a member of the National Commission on Agricultural Trade and Export Policy, I point out that the commission endorsed the concept of an export PIK Program in its interim report issued last April. During the subsequent meetings of the commission since then, it has been the general understanding of the commissioners that the program would be used to combat unfair trading practices by our competitors and that it would be targeted toward those countries where we have lost our traditional market share.

In targeting the BICEP Program, we must recognize that its greatest potential will be in punishing our competitors in the international arena, and that it will be less effective as a tool for moving agricultural surpluses or expanding exports in general.

While the commission supports the notion of targeting, I would also point out that individually many of the commissioners believe the program has been too targeted in its approach. In doing so, we have failed to either move any meaningful quantity grain, or force our competitors to stop utilizing their unfair trading practices.

If we choose to target, we must be both aggressive and innovative. For instance, some of the largest subsidies paid by the EEC to its farmers under its common agricultural policy relate to the production of dairy and meat products. These policies have contributed to the glut of overproduction in Europe and indirectly compound our own problems here in the United States. By blending a variety of commodities in one package we can make these offers not only more attractive, but we would also bring pressure to bear on the Europeans to stop oversubsidizing the production of these items.

Thus far, most of our efforts have been directed toward nations in the Mediterranean basin and the Middle East. If we were to combine the use of butter, cheese, or even certain meats with our offers of wheat we could make a significant step toward building long-term markets and effectively countering the Europeans in their own backyard.

The second approach is to apply the BICEP Program across the board for all nations—including both our traditional customers and potential new ones.

During the last several months, I have spoken with a number of representatives from countries who are major customers for U.S. agricultural products. None of them have been determined eligible for the export PIK Program and all of them have raised the same question: Do we have to stop being a customer for the United States in order to be eligible for this program? Under the current administration of this program, the answer is apparently, and unfortunately, "Yes."

Recently, in talking with certain Soviet officials, they associated their reluctance to fulfill their commitments under the long-term grain agreement because of their ineligibility for the BICEP Program. I have also received complaints from representatives of the Nigerian, Philippine, and Taiwanese Governments and the People's Republic of China. All have been good customers in the past, and I would hope that the administration would make every effort to work with them in the future. In a time of oversupply and surplus production in the world our first priority should be toward our traditionally good customers.

There are many who worry that an across-the-board approach will only lead to lower world prices and not to any additionality in total exports. But here, too, we are presented with opportunities, not obstacles.

If we are creative and enterprising, we could use this approach as a means for increasing our export of value-added crops, such as wheat gluten and flour, corn byproducts, or perhaps even ethanol. This would serve to regain world market share for the United States while building a long-term commodity supply management system within our economy.

Another option would be to utilize the BICEP Program as a means to invest in upgrading the quality and cleanliness of the U.S. grains in the world marketplace. In using the funds that are earmarked for the BICEP Program to install high-speed cleaning systems at all U.S. elevators, we would be offering a competitive bonus that should interest virtually all U.S. customers.

Mr. Chairman, in closing I reiterate my support for the BICEP Program. However, the potential for this program will only be realized when it is put to innovative and creative uses. The hallmark of this program should be creativity and innovation, not caution and trepidation.

All too frequently, this administration and we, as Members of Congress, have touted the American farmer as being the most efficient and productive in the world. America's farmers have shown the world what they are capable of producing. Now it is time for America to show the world that we are capable of being competitive.

In terms of exports, the interests of both farmers and this Nation are one, and by working together we will both benefit. In partnership, the American farmer and the Federal Government will be a force with which no other nation, or nation's farmers, can compete. Together, we will not only retain, but also regain our preeminence in the world marketplace.

I would be happy to answer any questions or take suggestions for that matter, if you have any.

[The prepared statement of Mr. Bereuter follows:]

Statement by the Honorable Doug Bereuter
before the House Agriculture Department Operations,
Reasearch and Foreign Agriculture Subcommittee
November 5, 1985

Mr. Chairman, and members of the Subcommittee, good morning. For the second time in less than a week, I appreciate having the opportunity to come before you on matters relating to agricultural trade. I not only wish to thank the Subcommittee for the opportunity to be here, but I also commend all the members of the House Agriculture Committee for the diligence, hard work and overtime it has been putting in to solve our agricultural problems.

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The most immediate concern is perhaps the problem with surpluses and what to do with them. Anyone who has travelled through the Midwest this year realizes that we will have a bumper crop. Last week, I began receiving telephone calls in my office from several elevator operators in Nebraska who told me that they were quickly reaching their full capacity. In many communities, hundreds of thousands of bushels of corn are being stored on the streets, and I would expect that it will be several more weeks before local elevators will have the capacity for moving the grain into more secure storage.

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Earlier this year, I think both Congress and the Administration recognized what would be happening when this year's crop was harvested. While I appreciate the Administration undertaking this program, I don't think it has be implemented with any great degree of enthusiasm.

We are all aware that there has been disagreement within the Department over the BICEP program from the beginning. Although I have great respect for the gentleman who is with us today from the Department (Mr. Amstutz) we also know that he was one of the leading opponents of this program from the start.

While most people favor the concept of an export-PIK program, debate continues over the extent and applicability of of the program. We are faced essentialy with two options: One, target the program toward specific countries or markets; or two, apply the program across the board for all customers of U.S. agricultural products regardless of whether they are current or potential customers.

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Mr. BEDELL. Thank you very much.

Mr. ROBERTS. Thank you, Mr. Chairman.

I would just like to say for the record that I truly appreciate the friendship and the service that my colleague renders. While he is not a member of the House Agriculture Committee, I don't think there is anybody in the Congress doing more work or who has more expertise in the entire export field. I think the record should show, Mr. Chairman, in the battle for contract sanctity several years ago, recent debate on cargo preference, and in the fight to release the GSM-102 funds of several years ago, and in regards to passage of the Export Administration Act—I am going down the whole laundry list—Mr. Bereuter has been in the forefront and he is indeed an expert in regard to this whole matter.

Is it your feeling, Doug, that we have enough support in the administration—for that matter in the Congress—that if we were to go across the board with this kind of a program, the BICEP Program, that we have the muscle to pass something like that? In the farm bill over on the other side, why there is a lot of talk of mandating the BICEP Program in this nature. I know some Senators have very strong feelings about the foreign policy implications. Do we have the muscle to get that done? I would prefer to get it done that way, but I wonder if it is possible?

Mr. BEREUTER. I want to thank you for your kind remarks.

I think that we can. We can work well together—those of you on the committee and others who sit on relevant committees on tax and trade issues. However, I do not think the support is there for such an effort within the administration. I can only guess it is forthcoming, but in my judgment, yes, the support is there to accomplish it directly in that fashion. The support is high, the opposition is simply more visible at this point. But that is my guess, and all of you are also experts in that area.

Mr. ROBERTS. We had several witnesses who were before the subcommittee and we asked, I asked the same question, and I guess it really boiled down to the fact that regardless of whether we have the votes or not, we should try, that this is in the best interests not only of the producer but in regards to our national well-being and economy. We should try at least, and I would still hope we could make the effort despite the obvious opposition.

Mr. BEREUTER. I strongly agree with you that we should make the effort. I can't see any down side. We should try and I have a fair degree of optimism about that result.

Mr. BEDELL. Mr. Evans.

Mr. EVANS of Iowa. Well, thank you, Mr. Chairman, and thank you, Mr. Bereuter. We certainly appreciate your coming by this morning to visit with us again and I want to tell you that your statement very closely reflects my personal views on this subject and I would like to be associated with your remarks and your position. I share your concerns about making the system work well and I am puzzled about what one might do to change it.

I guess I am particularly puzzled by the administration's apparent desire to reduce loan rates and move the materials into the world markets at lower world market prices, which clearly would benefit the Soviet Union and our traditional customers as well as increase the pressure on the European Communities and those that are following unfair trade practices.

I am puzzled by the administration's support for that approach, yet their great reluctance to essentially accomplish the same objectives through a nontargeted approach with the BICEP Program. It seems to me the results are essentially the same and I fail to understand the differentiation between the two.

I guess I am coming more and more to the point of view that we are going to find it impossible to make a BICEP type of approach work just by virtue of the bureaucracy and redtape and the administrative obstacles to processing all of the deals and that perhaps the only way to make it work is to automatically move those surpluses into the markets so that the market makes the deals rather than the bureaucrats in Washington.

So, I am looking forward to the other testimony and I hope that you can stay around or if you can't, at least take the time to examine the testimony carefully, and this subcommittee I am sure, looks forward to continuing to working with you and your committee in trying to get the goal met regardless of how we do it, and thank you for coming.

Mr. BEREUTER. Thank you, Mr. Evans.

I wonder if we don't have a lag, a policy lag here. It seems to me that the administration in general now has taken some new initiatives to try to head off protectionism legislation. It may well be the policy with the USDA lags behind change in the direction in the overall administration. If you have not done so already—I think you have not—I hope that you might find it possible to invite Mr. Yeutter before the subcommittee or full committee. My fellow Nebraskan, I think, has some interesting views on the BICEP Program that he would be willing to share with you and it may well signal some change in policy.

Mr. BEDELL. Would you yield?

Mr. EVANS of Iowa. Yes.

Mr. BEDELL. We do have a representative of Mr. Yeutter's department appearing this morning before our subcommittee.

I would like to ask the gentleman from Iowa a question. You did some work in regard to the cost of our programs in trying to restrict production at one time, did it include what it costs us per bushel of wheat in order to reduce production or was that only on corn?

Mr. EVANS of Iowa. Well, I just did it on corn, as I recall, and I don't recall the numbers except that the numbers were appalling and I am sure that if one did follow it through on wheat, one would have a similar shock.

Mr. BEDELL. Would the gentleman be able to check with his office and get the figures on what it was for corn?

Mr. EVANS of Iowa. I will try to do that.

Mr. BEDELL. It would be very helpful.

Mr. Volkmer.

Mr. VOLKMER. I join in commending the gentleman from Nebraska for his statement.

My only question is—something I personally feel as I review the policies followed after the announcement of the BICEP Program, and what has been going on—do you feel a little frustrated?

Mr. **Bereuter**. I certainly do. We made very little progress. It was a long period of time before we had any use of it. When I heard the attitudes expressed by the Nigerians, Filipinos, and so on, it increased my frustration. The Nigerians, frankly, are going to have to buy from the French in order to become eligible later on for our kind of BICEP Program.

Mr. **Volkmer**. As one who was in Russia with the chairman back in August, you might be interested to know the Russians were basically saying the same thing. They even issued the statement that the French were buying more of their products than we were buying of their products, therefore, they saw no reason why they shouldn't buy more from France than from the United States. It would seem to me to be ironical that we let these other countries actually promote other countries to buy from someone else in order to get in the BICEP Program.

Mr. **Bereuter**. Yes.

Mr. **Volkmer**. We lose more than we gain.

Mr. **Bereuter**. I might put in a plug for legislation I introduced last spring at this point, in response to what you said, Mr. Volkmer. All of the nations of the Soviet bloc have trade deficits with the United States and our trade is really minimal with those countries, except for the Soviet Union, where we do export large amounts of grain.

Mr. **Volkmer**. Right.

Mr. **Bereuter**. My legislation, which the American Soybean Association helped draft, is called major export market legislation. We have, as you know, the Jackson-Vanik law on the books which keeps us from providing most-favored-nation status to some of these countries. I think it is impossible, however, to repeal Jackson-Vanik even though Mr. Vanik repudiated it himself within a year, as I understand it.

The number of Soviet Jews that are emigrating is diminishing, although I think in the last several weeks there are some favorable signs. I visited with a number of organizations in this country, including the major American Jewish organizations, and they seem to indicate that there is only one way to go, and they are either neutral or slightly favorable to the concept of establishing new legislation for major export markets, which would say to those countries of the Soviet bloc and the Soviet Union, we do not find it possible to give you most-favored-nation status, which carries with it two primary economic benefits, one of which is credits, and the other one is column I status for tariffs.

Major Export Market legislation would grant one of the two. We will restore for nonstrategic kinds of trade an equal playing field as far as tariffs are concerned. I don't think we are likely to reach the point in the near future where we are going to extend credits to the Soviet Union, but why must we require a different tariff status on things that they want to export to us?

I think if we permit them to export more, that this would be an opportunity for us to increase our trade to our advantage in agricultural commodities with these countries. Hungary and Romania do have most-favored-nation status but there is a threat, indeed the status for Romania may be withdrawn because clearly it is the most repressive of all the Eastern bloc countries and it has simply been rewarded by Mr. Kissinger for its independence and foreign policy.

Perhaps we ought to simply extend at least MEM equal tariff column I tariff to all of the nations of the Soviet bloc and permit our trade to increase between the two. I think it offers some political advantages.

Finally, one point that sort of drove this home to me. When I visited East Germany in November 1983, the Canadians had just completed a grain deal with the East Germans. That made us the only country left in the world that denied column I tariff or most-favored-nation tariff status to that nation. We were the only one left, all of our competitors were indeed taking a different approach. I don't see how we can deny most-favored-nation status to Czechoslovakia and East Germany and give it to Romania.

Perhaps the answer is some new status, a way to step around Jackson-Vanik and extend at least the tariff advantages, even though we don't extend the credit advantages.

Mr. VOLKMER. Thank you, Mr. Chairman.

Mr. BEDELL. Mr. Roberts.

Mr. ROBERTS. Doug, is that a bill that you are talking about? Where is that now?

Mr. BEREUTER. It languishes before the Ways and Means Committee.

Mr. ROBERTS. I would agree with the gentleman that perhaps the BICEP Program is not mismanaged in its current form. I think Secretary Amstutz has done a good job under very, very difficult circumstances. I think it is misdirected. Would you agree with the statement of the previous witness who said this—we have two signs in our window right now in regards to the BICEP Program. The first sign says to our customers "Do not buy now because later the price will be cheaper." The second sign says, "If you are a good customer now, you don't qualify for the benefit or our price reduction."

Is that about where we are?

Mr. BEREUTER. I think that makes explicit our policy and the unintentional results of it.

Mr. ROBERTS. That is the thing we have to change?

Mr. BEREUTER. Yes.

Mr. ROBERTS. I thank the gentleman.

Mr. BEDELL. We thank you very much, Doug, for being here and for the work you have done in this area, and the other areas of agriculture.

Mr. BEREUTER. Thank you.

Mr. BEDELL. Our next witness is Dan Amstutz, Under Secretary of International Affairs and Commodity Programs, Department of Agriculture, Washington.

STATEMENT OF DANIEL G. AMSTUTZ, UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY SUZANNE EARLY, ASSISTANT U.S. TRADE REPRESENTATIVE, AGRICULTURAL AFFAIRS AND COMMODITY POLICY, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Mr. AMSTUTZ. Thank you, Mr. Chairman.

I don't have a prepared statement. I just thought it might be helpful to the subcommittee if I would update where we are in the Export Enhancement Program now, versus where we were the last time I appeared.

Mr. BEDELL. If I might, does Ms. Suzanne Early have a statement? Do you have a statement?

Ms. EARLY. No.

Mr. BEDELL. You do not?

It would be the chairman's recommendation that we ask you both to come up to the table for the questioning period. Is there any disagreement to that? I am going to have them both here together.

You may proceed, Mr. Amstutz, with whatever statement you wish to make.

Mr. AMSTUTZ. Thank you, Mr. Chairman.

Since I last appeared before your subcommittee, we have announced an additional export enhancement initiative totaling 1 million tons, 500,000 tons of wheat to Egypt, and 500,000 tons of wheat to Turkey, and 500,000 tons of sales have been consummated under previously announced initiatives to Algeria.

If I might add—I mention this because of Congressman Bereuter's testimony—it does not get much publicity because the focus of these initiatives tends to be in the cereals area, but during the late spring and summer months, we have sold to Spain and Austria, some 240 million pounds of nonfat dried milk out of CCC inventories. Those are massive sales from a historic standpoint and the liquid equivalent of that is some billion quarts of milk, and so as I say, I mentioned that because of Congressman Bereuter's mentioning the dairy side of this. I don't mention it to cloud the issue.

Mr. BEDELL. That is not part of the BICEP Program is it?

Mr. AMSTUTZ. No, sir, it is not, because in the dairy area, where the surplus is virtually all owned by the CCC, our sales are made directly from CCC inventories.

Mr. BEDELL. Can you tell the subcommittee how much in actual sales have been made under the BICEP Program, not offers, but actual sales?

Mr. AMSTUTZ. The actual sales to date are about 1¼ million tons, 1,240,000 tons.

Mr. BEDELL. Can you tell us how much that has cost in terms of the BICEP Program?

Mr. AMSTUTZ. About 415,000 tons of subsidy, which is equivalent to about $61 million.

Mr. BEDELL. Thank you.

Were you through?

Mr. AMSTUTZ. Yes.

Mr. BEDELL. You did not have a statement, as I understand it?

Ms. **Early**. No, Mr. Chairman.

Mr. **Bedell**. Mr. Roberts.

Mr. **Roberts**. Thank you, Mr. Chairman.

I would like to thank Secretary Amstutz for coming back. I know his time is very valuable and during the last hearings he had to leave for a previous commitment and I appreciate your coming back.

Mr. **Bedell**. Would you yield?

Mr. **Roberts**. Yes.

Mr. **Bedell**. It should be clear to the press and everyone else this subcommittee knew ahead of time Mr. Amstutz had to leave. There was a misunderstanding I think by some of the people in the press, but we were well informed prior to his leaving.

Mr. **Roberts**. Dan, we are trying to smother you with the milk of human kindness in the hope you can get these exports really cracking. As of yet the milk has not curdled, we are simply going to welcome you back.

Last Friday, the price of wheat at the Dodge City elevator went up 12 cents a bushel. It is holding steady, about a penny higher. In these beleaguered times any price increase is most welcome. I think perhaps the reason for that is because we have a very tight situation with regard to free stocks, and in addition, the announcement of sales to Egypt under the BICEP Program was certainly helpful.

In this regard, do you feel that the program not only is being used as a short-term trade policy tool, but in fact because of the free stocks situation, does now the BICEP Program become even more important in terms of having a positive effect on prices?

Mr. **Amstutz**. It is hard to answer that question yes or no, and I will——

Mr. **Roberts**. I would like a yes, but go ahead.

Mr. **Amstutz**. I will try to be brief in my response.

The biggest problem facing wheat and other grains this year from a price standpoint is the general economic situation. The world has produced more wheat than it will consume and so the world once again will add to wheat reserves, the lion's share of those being held in our country, and whenever we have a supply/demand balance like that, it does not bode well for prices.

I think the principal reason for the strength in what prices we have seen over the last several months relates to our loan program and entries into the loan. I don't think it relates to demand related factors.

Mr. **Roberts**. That situation has been in the market for a couple of years. I have some figures about the carryover. I hadn't intended to ask this question but I might as well. My point is I don't think you folks will see any free stocks in the near future given that kind of a tight situation. Why then can't the BICEP Program, if we really pursue it on a very aggressive basis, give us that kind of price relief as we saw on the sale to Egypt? I don't know any reason why the price went up, what, 12 cents, unless they just answered my prayers, and under the circumstances, I think the timing is really right to use the BICEP Program for price relief, given the tightness of our stocks.

Long term, I understand what you are saying, short term we are in a price and cash-flow crisis out there with the farm credit system having a lot of problems. Any kind of increase like this can spell the margin of difference for a beleaguered producer, and what you worry about—this will be my next question—we have 525 million bushels in the CCC right now, 500 million bushels of wheat in the reserve program, in farmer-held reserve, 500 million in the 9-month loan, and 175 million in the producers' program. That adds up to a carryover, a surplus, if you will, of somewhere between 1.7 or 1.8 billion. Historically whenever we have over 1 billion bushels in the carryover, it takes us 2 years to get back to a supply/demand situation to get a price that is even close to the cost of production.

I wonder about a form of PIK, if you will. The Secretary has already said that we may have PIK payments in connection with the conservation reserve. We may have PIK payments in the form of advanced deficiency payments. Those come back on the market and the price goes down. What I am saying, now is the time to make the BICEP Program work, in this timeframe, over the next several months, to get some real price relief. Would you agree with that?

Mr. AMSTUTZ. I understand what you are saying and first, let me say I think over the coming months you will see more business done under this program. I have said before when I have been here, that I am confident these initiatives we have announced will come to fruition. What I can't provide exactly is when each of these initiatives will be converted into business. But we are confident before we enter into them, enter into agreements with these countries, that business will be forthcoming and there will be more initiatives announced as the next weeks and months unfold. So the process will be working.

Mr. ROBERTS. Could I ask for 1 additional minute to follow up on my last question? I beg the subcommittee's indulgence.

Mr. BEDELL. Surely. I think what we will try to do is hold to 5 minutes and go a second round.

Mr. ROBERTS. I think what I need to say is simply this: In the Senate there is a very strong feeling that there will be approval of an amendment to make the BICEP Program apply across the board. We have a similar provision in the House-passed bill where we say we will use this kind of a program to match any unfair trading practices by our competitors. Given the action in the Senate, given the action in the House, do you think there is any possibility, any chance that the Reagan administration—I am saying the USDA—we have had some conversations about this, about how you feel about it, how the Secretary feels about it—do you think there is a chance that we can get support for some kind of across-the-board program to get these prices up to withstand the pressures that we are going through right now?

Mr. AMSTUTZ. Within the administration?

Mr. ROBERTS. Yes sir.

Mr. AMSTUTZ. Mr. Roberts, let me just answer you candidly and as honestly as I can. I think the answer is "No."

Mr. ROBERTS. Well, there is going to be hell to pay.

I thank you, Mr. Chairman.

Mr. BEDELL. Ms. Early, do you share that assessment?

Ms. EARLY. Sir, I am not sure I completely understood the question. I understood Mr. Roberts to say do you think that the administration would favor matching unfair practices of our trading partners?

Mr. AMSTUTZ. No.

Ms. EARLY. He is asking for across-the-board subsidies?

Mr. BEDELL. Across the board.

Ms. EARLY. Yes, I share Mr. Amstutz' view.

Mr. BEDELL. Mr. Evans.

Mr. EVANS of Iowa. Thank you, Mr. Chairman.

I would like to pursue that a bit further with Ms. Early or Mr. Amstutz. How do you reconcile the fact that on the one hand you oppose across-the-board use of the BICEP Program without targeting, and on the other hand, you are very much in favor of reducing the loan rates and moving surplus stocks into the world markets without any restraint? How does one define the difference?

It seems to me that the net effect on our overseas customers is much the same. Maybe I haven't made myself clear, but if it is very, very bad to give the Soviet Union bonus bushels under this program, why is it so good to give them the surplus stocks under a program where we merely reduce the loan rate and move that material out in the market? How do you philosophically respond to that?

Mr. AMSTUTZ. Mr. Evans, when you brought up this subject when Mr. Bereuter was sitting here, as I recall you made some references at that time to letting the marketplace take care of it and in essence, that is what we really are saying. We say to the world in our question for this level playing field of fair trade practices, that American farmers are willing to compete with farmers from nations all over the world, but that it is not fair to ask American farmers to compete with foreign treasuries, and a subsidizing policy puts the treasury, so to speak, into the game and it is our policy to persevere and succeed in eliminating export subsidization from trade practices from nations all over the world.

It is fitting, we think, to focus our own Export Enhancement Program on those markets that are monopolized by subsidizing exporters. We don't think it is fair, or we don't think it is in the best interests of promulgating the policy we hope to achieve, to practice the same policies against nonsubsidizing exporters that we complain about vociferously. We think it should be handled in the marketplace without treasury involvement. We don't see an inconsistency in our management of this program and in what we have advocated as sound farm policy for the Nation.

Mr. BEDELL. I don't think you understood his question, Mr. Amstutz. Would you repeat your question, Mr. Evans, because your answer did not address the question as far as the chairman is concerned.

Mr. EVANS of Iowa. I am not sure that it would do any good to restate the question, but if I may pursue that a little further. We speak in connection with the Soviet Union. The French are selling vast amounts of wheat to the Soviet Union, and so if one is going to hang it on this business of competing with others who unfairly subsidize, why in the world shouldn't we do the same thing with the Soviet Union then?

I mean, I understand that French wheat sales to the Soviet Union have grown by leaps and bounds in recent years. It is due to one thing, due to the subsidy, and yet we are not willing to respond under this program to that, and I am sure that we are not going to, and so it is probably not worthwhile belaboring the point, and I would sort of like to move on to another subject, if I may.

You talked about possibly announcing some new initiatives and that when you did you were certain that sales would be forthcoming. This bothers me to some extent, too. Apparently one does not announce an initiative under this program unless one—and by one I mean the USDA—is absolutely certain in its own mind that there are going to be sales under that initiative, and that USDA has identified those specific sales.

Why in the world must we do it that way? Why can't we identify countries that we would like to make a transaction with under this program and let the trading out and find the deal?

Mr. AMSTUTZ. The trade does go and find the deal. Perhaps I wasn't clear when I said that and if I said we are absolutely certain——

Mr. EVANS of Iowa. I think you did not, but you said something about some assurances that business would be forthcoming. I think that is a fair statement.

Mr. AMSTUTZ. We are confident that business will be forthcoming. We are confident that we have properly assessed the demand in those areas and immediately prior to announcing an initiative, we will sit down with the country involved for some final assurances, but the business flow is from the trade. We have nothing to do with that.

Mr. BEDELL. If I understand Mr. Evans' question, it was that if you need to sell wheat at $110 a metric ton in order to make a sale, what is the difference whether you have a $130 price and subsidize down to the $110 or whether you have a targeted loan rate where you lower the domestic price to $110 and subsidize the farmer up to $130? I think that was his question. Some of us can't see any difference in that. Either way, it seems to us you are selling to the Soviet Union for $110 and the farmer is still getting the same amount of money. How do you explain the difference, Mr. Amstutz?

Mr. AMSTUTZ. We think different compacts, as I said before—Mr. Chairman, I recall you said that I really didn't respond to Mr. Evans' question?

Mr. BEDELL. That is right.

Mr. AMSTUTZ. In all due respect, I thought I did.

Mr. BEDELL. If we are going to sell wheat to the Soviet Union at $110 a metric ton, what is the difference whether we do it through the BICEP Program, where we bring it down to $110, or whether you lower the loan rate to $110 as long as you still give the farmer the same amount of money? We still sell to them either way. You say what would be is already, and one is wrong. Some of us can't see what the difference is.

Mr. AMSTUTZ. In the case of the Soviet Union, since you bring up that as an example, our agreement clearly says with the Soviet Union that they buy from us U.S. wheat, and U.S. corn, at prices that are in effect for U.S. corn, and U.S. wheat in the United States.

Mr. BEDELL. It does not clearly say that. I can read you exactly what it says. There is dispute about what it says because they say prevailing prices are world prices, you say they are domestic prices, so nobody knows for sure. But you are not answering the question. The question is: Why are you against selling wheat to the Soviet Union at $110 a ton if you are proposing that you want a lower range so you are going to sell? This is Mr. Evans' question exactly, and I think we are entitled to an answer. Either it is wrong to sell them at $110 or all right, and you are recommending one way we do it, and one way we shouldn't do it.

Mr. AMSTUTZ. Price is not the issue, the issue is policy. If we would advocate a program of export subsidies and follow that kind of a policy around the world, on this so-called across-the-board basis, we would be copping out on our efforts to change the trade practices around the world. We would be following the old maxim if you can't beat them, join them. And we find that unacceptable.

Mr. BEDELL. Mr. Volkmer.

Mr. VOLKMER. Mr. Amstutz, maybe the agreement as to the effect of a decision on policy, that is foreseen. You foresee that if we go this route, and we go ahead and subsidize everybody, that we are caving in and joining them. If we do that, what effect do you think that would have on countries like France? Do you think that means to France that they are going to go ahead and subsidize further? Is that what you are telling me?

Mr. AMSTUTZ. No; you see, I think with our current program, with our current program targeted on markets that are dominated by subsidizing exporters, that we are hurting those who engage in subsidies, and in point of fact, the export subsidy levels on French wheat have about doubled in the last several months because of this program, and to be candid, Mr. Volkmer, we hope the program hurts others that engage——

Mr. VOLKMER. I understand the purpose of it, but wouldn't it hurt more if we did more?

Mr. AMSTUTZ. It would hurt others that themselves do not engage in subsidies.

Mr. VOLKMER. It may, I agree on that. But I am sure that—we have got an old expression back home that sometimes if you want to get a mule's attention and you take a 2 by 4 and hit him on the head, you get his attention pretty fast. But what you are doing is you are using a switch when you ought to use a 2 by 4.

Mr. AMSTUTZ. I think in the case of targeting it is not with great pleasure that the European Community doubles the amount of export subsidy it pays. You recall, Mr. Volkmer, that they cannot engage in deficit financing, so as their expenses mount, they have to collect the revenues somehow.

Mr. VOLKMER. Let's carry the present program as it is going on. You tell me the number of countries that are not targeted?

Mr. AMSTUTZ. The number that have now been targeted so far?

Mr. VOLKMER. We have Egypt.

Mr. AMSTUTZ. Yes.

Mr. VOLKMER. Who are they—Egypt, Turkey, Algeria?

Mr. AMSTUTZ. Five.

Mr. VOLKMER. Tunisia?

Mr. AMSTUTZ. Algeria, Egypt, Yemen, Morocco, Turkey.

Mr. VOLKMER. Tunisia is not included?

Mr. AMSTUTZ. Not in the announcements so far.

Mr. VOLKMER. We have five countries?

Mr. AMSTUTZ. Yes; and we have another inactive state of work within the Department. Let me count them. Another eight in active stages of internal work in the Department.

Mr. VOLKMER. Now, of those, we have had a total sales so far, shipments of 1 million?

Mr. AMSTUTZ. Sales, Mr. Volkmer of 1,240,000 tons. I am not sure what the shipments have been.

Mr. VOLKMER. You haven't got the shipment?

Mr. AMSTUTZ. I can get that for you and send it up to you.

Mr. VOLKMER. As against do you see any possibility, as the gentleman from Nebraska alluded to, a loss of any sales to countries like Nigeria or to even the U.S.S.R.? I know we have a contract. They will buy the minimum, they might buy additional from someone else. Do you find that a possibility?

Mr. AMSTUTZ. When I came up here before, it seems to me it was about 1 month ago, Mr. Volkmer, I said at that time that with one exception no countries had been in communication with me about this possibly creating a diminishment in the amount of business we would do with them and that one exception was the Soviet Union. So I acknowledge that because of this difference of opinion between the Soviet Union and us, on this particular issue, and on the language of the long-term agreement, that it can negatively impact on the amount of business to that country by the tune of 1 million tons last year.

I will check into the Nigerian question when I go back down to my office.

Mr. VOLKMER. I would like to have that.

Mr. AMSTUTZ. In other examples we haven't had a problem. I understand the threat and the risk that Mr. Bereuter was referring to and it seems to me when I was here before, we spent a little time discussing this, the sensitivity of it. I understand that. I understand the point that Mr. Bereuter made.

Mr. VOLKMER. My time has expired.

Mr. BEDELL. Mr. Bereuter, did you wish to ask some questions?

Mr. BEREUTER. Thank you, I appreciate that. I hope that you will—I can't imagine that the Nigerians are more candid with Members of Congress, millers, and buyers than they are with the administration.

This afternoon I am involved in a markup of legislation for mixed credit, and a year ago the administration was opposed to mixed credit—that is, a combination of credit and foreign aid—we have deplored it. The French and others have used it very aggressively on industrial products and in other kinds of sales. All of a sudden, the administration has switched and now it is supportive of the legislation. It seems to me that it is the same principle that they have caved in or changed their minds on that you are enunciating. The only the difference is that we are talking about agricultural products. Just because we believe something is wrong, we shouldn't engage in the same kind of activity you said, but that is precisely what the administration has done in reversing itself on mixed credit in another particular trade arena.

Mr. Amstutz. But I think, Mr. Bereuter, it is my definite understanding that the method in which the administration wants to use this mixed credit approach is exactly the same as we are using in export enhancement initiatives, targeted solely in those areas where it is in competition with countries—France is an example—that they will employ it. So the philosophy is exactly the same.

Mr. Bereuter. It is true it is a limited kind of targeting at this point.

Also, I would indicate that at this point they are asking for something that can be sunsetted or that has a specific sunset in it.

Mr. Amstutz. Yes, sir.

Mr. Bereuter. I think that is probably counterproductive, because it is very short sunset. I think it should be an open-ended kind of arena and commitment. When we stop that practice—something I never expected to hear, I never expect to change the policy of the French on this matter. I think to send a message you do it across the board, we surely lose sales from good customers unless we do this. That is the only way we are going to have any impact upon the French and several other competitors. That is a matter of judgment which I have a strong conviction what has happened and will happen based upon experiences around the world, and apparently you disagree.

I will not take any more time. I look forward to the second round of questions.

Mr. Bedell. Thank you, Mr. Bereuter.

Mr. Amstutz, it appears the cargo preference will be worked out as part of the farm bill.

Once the cargo preference issue is behind us, what action can we expect from the administration and from you in reinstituting a blended credit program?

Mr. Amstutz. Well, whenever the cargo preference problem on blended credit is behind us, those programs will be reinstituted.

Mr. Bedell. You will go ahead and pursue them?

Mr. Amstutz. Yes.

Mr. Bedell. When you were here before, you indicated there were three criteria established by this committee of different Cabinet offices.

One was that sales must be directed at specific markets.

One was that sales must increase exports above what they would have been without such a program.

And the third one was they not increase budget outlays above what would be available.

Do you feel that those offers you have made so far met those criteria?

Mr. Amstutz. Yes.

Mr. Bedell. Recently, there was an issue in regard to the Soviet Union agreement to buy 1 million metric tons, wherein our price was significantly higher.

The press has indicated that our price was $130 a metric ton, that the French price was something on the order of $102, and that the Argentina price was $93.

The press indicated the Soviet Union has said they would agree to buy that at $111 a metric ton.

Can you confirm or deny that press report?

Mr. AMSTUTZ. I can't confirm the exact numbers, Mr. Chairman.

I can confirm that the Soviet Union made several purchases from Soviet trading firms with optional origin, and the two origins that were involved were Argentina and United States, and that there was a considerable price difference between the Argentina and the United States.

In our consultations with the Soviet Union, no mention of French price was made by them.

The only prices they mentioned were the Argentina prices.

In round numbers, the difference then was some $40 a ton which is very close to the figures you just gave.

I think the figures you gave were a little bit greater than that.

In private consultations I personally had with some of the trading firms—not with the Soviet Union—I had reason to believe that that difference of $40 could be narrowed to something in the $20-some range, without being specific.

Mr. BEDELL. But the indications were if we had a BICEP Program with them of something in the range of $20, that we very possibly could have held that million metric tons.

Mr. AMSTUTZ. That is right in round figures; yes.

Mr. BEDELL. In what way do you feel—first of all, did you make that decision?

Was that decision made in the Department of Agriculture, or was that made by this committee, or who made the decision that you would not go ahead with the BICEP Programs at $20 a million metric tons in order to hold that million metric ton order from the Soviet Union?

Mr. AMSTUTZ. On two separate occasions, the criteria for this program have been taken to the Economic Policy Counsel, Cabinet officers of the administration.

The first occasion was just after the program had been announced and when the details of it were being hammered out.

The second occasion was just prior to our consultations with the Soviet Union. Price specificity was not mentioned, Mr. Chairman, but the criteria certainly were.

So, on two separate occasions, there has been agreement on the criteria and insistence that the criteria be adhered to at the Cabinet level.

Mr. BEDELL. But somebody made the decision after you had the information—the indication that $20 a ton would probably enable us to hold that business—somebody made the decision we should not do that.

Was that the Department of Agriculture that made that decision or was it the council?

Mr. AMSTUTZ. Yes, the Department of Agriculture made the decision, but the wishes of the administration were clear.

Mr. BEDELL. The press reports have indicated that you would have liked to have made the sale but that the administration nixed it, the President turned it down.

Are those accurate, or did you decide yourself you should not make it?

Mr. AMSTUTZ. I think the best way I can answer the question, Mr. Chairman, is that there has been, continues to be, unanimity in the administration as to the criteria on this program.

Mr. BEDELL. No question about the criteria. The argument is whether it met the criteria or not, but somebody decided you should not go ahead with this $20 a ton subsidy to sell it.

Was that made by the Department or did you wish to do it, and did the administration tell you you couldn't do it?

Mr. AMSTUTZ. It was made by the Department, Mr. Chairman, because it did not fulfill the criteria.

Mr. BEDELL. May I pursue this?

Mr. ROBERTS. Certainly.

Mr. BEDELL. In what way did it not meet the criteria?

Mr. AMSTUTZ. It didn't for reasons I have already said before, that this market is not dominated by nonsubsidizing exporters.

So, the issue—I tried to say this obliquely before in responding to your question, and I wasn't clear on it.

The issue really wasn't whether the subsidy that the Russians wanted was $40 or $20 a ton.

The issue was, was this a particular piece of business that would qualify for a subsidy, and it was not.

So, the amount of the subsidy was not the issue.

Mr. BEDELL. I don't understand how you can say that when the fact of the matter is that this was the largest customer of the European Economic Community with some 30 percent of the European Economic Community wheat going to the Soviet Union, so that certainly if Algeria, Egypt, Morocco, Yemen, and Turkey qualified, most people would not be able to understand how possibly you would say that, for those same things, you disqualify the customer that is getting the largest of all subsidies from the European Economic Community.

So, I think—is there something I am missing here?

Mr. AMSTUTZ. I will respond in two ways, Mr. Chairman.

I don't think you are missing anything. I just think there is a difference of view on the issue.

I will answer in two ways.

First, that the last figures I have on this are some 84 percent of the Soviet purchases are from nonsubsidizing exporters, so the EC does not dominate that market.

Second, in this particular case, the wheat we would have been displacing had we engaged in a subsidizing policy would not have been EC wheat. It would have been Argentine wheat.

There is no one who thinks the Argentines subsidize their exports.

Mr. BEDELL. Mr. Amstutz, the figures we have show that the Soviet Union projections for this year of European wheat is 6.1 million metric tons from the European Economic Community.

Do you show something different from that?

Mr. AMSTUTZ. No; I was giving you total grains.

Their total exports for this year will be 8.6 million tons.

Mr. BEDELL. Of the European Economic Community.

Mr. AMSTUTZ. To the Soviet Union.

Out of total purchases by the Soviet Union of 54.5 million tons.

Mr. BEDELL. They get that from the Soviet Union.

The figures we have show that Algeria would get 495,000 metric tons as compared to 8 million to the Soviet Union; that Egypt would get 750,000 metric tons, that Morocco would get 300,000 metric tons; that Yemen would get 20,000 metric tons; and Turkey would get 170,000 metric tons.

If what we are trying to do, by your guidelines, is address those people who are getting subsidized wheat from the European Economic Community, I think you would have an awful hard time getting many people to believe that somebody that buys 8 million metric tons is not being subsidized equivalent to those countries that are all buying less than 1 million metric tons.

Is there something crazy about my thinking? Because either I am crazy or you are crazy, and one of us better find out who it is.

Mr. AMSTUTZ. Mr. Chairman, the issue is market penetration.

Mr. BEDELL. OK. If we might pursue that, if we might pursue market penetration, if we will take the situation to the Soviet Union of the Eonomic Community, in 1979 to 1980, their penetration was 700,000 metric tons.

In 1980 to 1981, it was 900,000.

In 1982, it was 1.7 million.

In 1982 to 1983, it was 3.4 million.

In 1983 to 1984, 3.6.

You tell me for 1984, 1985, it is 8 million metric tons.

You don't think that is much penetration of a market, Mr. Amstutz?

Mr. AMSTUTZ. I agree there has been more penetration. In that same period of time, Mr. Chairman, our sales to the Soviet Union have also advanced.

We have come back quite far from the days when President Carter imposed the embargo.

Mr. BEDELL. If you take 1980 to 1981, at the time of the embargo, our sales were 3 million metric tons.

European Economic Community was less than 1. Today, we have 6.1. You tell me they have 8. Is that where we are losing market share or not?

It is pretty clear that we are, isn't it, Mr. Amstutz?

Mr. AMSTUTZ. Our total sales this past year on a July to June year basis—these are the figures I am looking at—sort of a wheat crop-year—were 22.3 million tons.

Mr. BEDELL. No, no. We want wheat.

Mr. AMSTUTZ. I am sorry. In that July to June period for 1984, 1985, our sales were 6.1.

Mr. BEDELL. OK.

What were the European sales?

Mr. AMSTUTZ. In that same period, 6.1 by the European Community.

Mr. BEDELL. So, we had the same sales, but in 1980 we had three times the sales they had, is that correct?

Mr. AMSTUTZ. In 1980, 1981, yes, 3 million versus 1 million.

Mr. BEDELL. So, we go from three times the sales to only the equivalent sales, and you claim we are not using market shares.

Mr. VOLKMER. Would the gentleman yield on that?

Mr. BEDELL. I will be glad to yield.

I am sorry to take so much time from the subcommittee here.

Mr. VOLKMER. I think it is very good.

Somehow, somebody has got a blindspot somewhere. If you go back again on your 1980, 1981 wheat figures for us and the European common markets as to sales to Russia, it appears to me at that time we had about 80 percent of the market, that now we are down to 50 percent of the market, and the gentleman from USDA is not telling me that is market penetration by the EEC.

Mr. AMSTUTZ. Mr. Volkmer, of course there has been increased market penetration by the EEC.

The question is whether it is a market that is dominated by the EEC.

Mr. VOLKMER. Would the gentleman yield further?

Is what you are telling me is we wait until they have 80 percent and we have 20 percent, then we go in and say, "Hey, we have got to subsidize?"

Is that what we are saying? What is market domination?

Mr. AMSTUTZ. Well, in my judgment, if you ask me to quantify it—and it is difficult to quantify—but my response would be trend is important, to acknowledge the point you have made.

Clearly, that is important. I really don't want to be pinned down here.

I don't want people after this hearing saying that I said one thing in here and——

Mr. VOLKMER. Next year, you don't want us to say, "Hey, now they have got 70 percent. We have 30 percent."

Mr. AMSTUTZ. I am not worried about this committee, Mr. Chairman. I am worried about all who hear what is said in this hearing.

But trend is one very important element. I want to emphasize that.

Then, because of the effective trend, domination can start with a market that is a one-third kind of situation and move up from there.

Mr. VOLKMER. The chairman has the time.

Mr. BEDELL. Ask unanimous consent to proceed.

May I have it? It says sales must be directed at those where competitors subsidize their exports, was part of that criteria they had to be dominated by that country?

Mr. AMSTUTZ. Yes.

Mr. BEDELL. If they did have to be dominated, then for Egypt, 21 percent of their wheat came from European Economic Community, whereas more than that percent of Russian wheat came from that community.

How do you explain the fact that you think we ought to subsidize to Egypt, whereas you think we shouldn't subsidize the Soviet Union if we are using the criteria of domination. If the European Economic Community dominates Russian imports to a greater extent than they do Egypt how can you justify not using the program?

Mr. AMSTUTZ. As I said, Mr. Chairman, trend is one thing and then our own assessments of the current situation is another thing.

In the particular instance here of the Soviet Union, let me repeat that the business that we would have displaced by subsidizing sales to the Soviet Union would have been Argentine business.

The Soviets specifically said that to us, and they specifically proved that the way they had contracted for the so-called optional origin market.

Mr. **Bedell**. You said whether or not we are gaining or losing, the domination is what is happening.

If you again look at Egypt in 1984, we had 38 percent of their market. In 1985, we had 21 percent.

If you look at Egypt for the European Economic Community, they had 30 percent in 1984, down to 21 percent.

Their domination of the Egyptian market was clearly declining, whereas their domination of the Soviet market was clearly increasing.

If you are concerned about domination, I don't know how you could possibly justify a sale to Egypt where the domination of the European Economic Community is diminishing, whereas you would loose a sale to the Soviet Union where Economic Community domination is increasing.

I have taken way too much time. I apologize to the subcommittee, and I yield to Mr. Roberts.

Mr. **Roberts**. Thank you, Mr. Chairman.

I would simply make the observation that I think it is obvious that under previous administrations, and now the current one, that we are not going to see any open subsidization of the Soviet Union, period.

We may do that in another forum through our price support system, and then it is not so open or controversial or doesn't raise the hackles of the National Security Council or State Department or Defense Department or everybody else in this crazy town.

But, we are not going to do it openly. Given that, I would like to ask Ms. Early a question.

I think it is only fair you join in this discussion, Ms. Early. The early bird gets the worm. We are going to wiggle up here for you, and you can answer our questions.

Are sales to the Soviet Union good for agriculture?

Ms. **Early**. Of course.

Mr. **Roberts**. Are they good foreign policy?

Ms. **Early**. Yes, now.

Mr. **Roberts**. If, in fact, we make them more dependent on the United States for their food supply; if, in fact, they become cash poor or gold poor in buying those products; if, in fact, they can't spend that money for defense and exporting terrorism and revolution around the world; if, in fact, they lead themselves to a higher protein diet and become more docile; and on the other side of it, I am sure the Soviet Union would force their people through whatever deprivation they need to force them in order to spend the amount of money they spend on their arms.

If it is all that good, and I think it is, that is, the arguments we used against a former President, why, in your opinion, then do we have this strong opposition within the administration to do that across the board other than focusing on long-term policy integrity?

Ms. **Early**. Well, when you talk about a blanket export subsidy program—that is what you are getting at, correct?

First of all, a blanket export subsidy program would lower world price levels.

Second, it will irritate those countries that are not now subsidizing and whose help we greatly need to try to change the rules in international trade in the GATT, the General Agreement to Tariffs and Trade, to make it more difficult for all countries to use export subsidies.

As you know, we have been working very hard in that body to try to get those rules changed, and we have made some slight progress.

There is quite a bit more that needs to be done.

Mr. **Roberts**. Pardon me for interrupting.

Do you really think changing the rules or reaching some better accommodation in the GATT round or the new GATT round or perhaps even in the current summit—I would hope we could achieve a breakthrough there.

Do you anticipate that, by the way?

Do you think the upcoming summit will deal with agriculture and this particular problem?

Mr. **Amstutz**. You mean the economic summit in Tokyo?

Mr. **Roberts**. No; I mean the summit between Mr. Gorbachev and Mr. Reagan.

Mr. **Amstutz**. It is surely my hope, and I am sure shared by Secretary Block and all the administration, that as a result of the meeting between the President and Mr. Gorbachev that the general relationships improve between our two countries.

That being the case——

Mr. **Roberts**. I was wondering about the specific agenda in regards to agriculture.

I suppose that was a loaded question. We all hope that.

I think what I am trying to get at is that it seems that every time we try to devise some means, any means, any straw, any life-raft, if you will, to improve the price situation in farm country, we always get into the business of people telling us why a particular program will not work because of long-term policy integrity or goals.

That might be important when they write the annuals or whatever they write around here, but we need price improvement given the situation with the farm system and everything else.

I won't go into that speech, and the doom and gloom in farm country.

But our policy goal is that we want to get market competitive, and that is the long-term goal. Why?

I am assuming that is to move the grain. All right. If you are going to move the grain, how much grain do we have to move?

We have 1.8 billion bushels of grain, a tremendous carry over, 300 million more bushels than we had—if I might be permitted to proceed, Mr. Chairman, and I will reach my conclusion here.

Mr. **Bedell**. Fine.

Mr. **Roberts**. I think that is the export train that just went by, and we missed it.

How much grain?—1.8 billion to get rid of 1 billion would take us several crop years to get to that price of $4, $4.50 and hopefully, ever onward and upward.

I have been calling that period of time that we are going through the "valley of death" or "slow death" or "Death Valley days," and the price as of today is somewhere between $2.60 or $2.50, $2.70.

You just had the sale to Egypt, and it went up 12 cents, as I indicated.

Now, why do we have long-term policy if, in effect, we have a tool here that, hopefully, we can get the price up in the short term and get some relief?

I just don't understand that, and if you do it the other way, by taking the loan down to $2.47, which we have authority in the farm bill for the Secretary to do that, and gentlemen, you get market competitive, we are right back to Mr. Evan's question.

Why can't we get cracking on both and get some short-term price relief?

Isn't this long-term policy on behalf of the farmer?

He is the one that is getting left out of this with all the talk about GATT and rules and President Mitterrand somehow shaping up, and you know, nodding his head yes instead of no on all of that and drinking his Perrier.

Mr. AMSTUTZ. Mr. Roberts, I sure understand the frustration of the farmer, and those points you make in that regard are very good ones.

I sure know, too, that long-range resolution of problems does not address the short-term dilemma.

I am keenly aware of that, but it surely also is my view that the long-term health of American agriculture does, indeed, depend on our ability to do two things: To develop farm policy that does make sense on a long-term basis that you have addressed; and also that we create a climate in the world that allows an expansion of trade.

I don't know when we are going to have the kind of breakthrough in this multilateral forum that we need.

I sure know that we are closer to it now than we were a year ago, and up until a year ago, in my experience, we had not seen any changes for 20 years.

Now, we are at least talking about these things. In private, bilateral members with member states of the community, we even agree on what should be done.

They don't argue with us about the fallacy of their subsidizing policies.

We think it is enormously important to push ahead on these issues.

Mr. Bereuter, before he goes, I would like to mention in this regard another subject.

When Secretary Block and I were in the Soviet Union in August, these issues—what I call these countertrade issues—came up.

Our trade balance with the Soviet Union, I think, is like five to one in our favor, something like that.

Incidentally, they talked more about that then they did price. They said to us, "What is this slave labor business that is coming up in the Congress again? How is that going to impact on our ability to export products to the United States?"

And I was told by people on my staff just yesterday that part of a Treasury appropriations bill has this subject in it again.

I make no comments about that. I just say there are a number of issues that can either help in this trade question or hinder it.

Mr. **Bereuter**. Would the gentleman yield?

Mr. **Roberts**. I will be happy to yield.

Mr. **Bereuter**. I would like to ask the Secretary to go back and ask why we don't give the Soviets title 1, column 1 tariff amendment.

That is part of the answer.

Mr. **Amstutz**. That is part, and you gave the question and the answer, Mr. Bereuter. It is Jackson-Vanik.

Mr. **Bereuter**. There is a way around Jackson-Vanik. All it takes is for the administration to be supportive of MEM.

I point that finger to Miss Early also.

Thank you for yielding.

Mr. **Roberts**. If I might reclaim the time that I apparently don't have, while you are going through all these private talks and, hopefully, the atmosphere is improving and the prospects for a better trade policy long term are evolving, and I applaud your efforts in this regard.

Nobody has worked harder than you have, sir, and it is terribly difficult, but in absentia of real progress on the deficit, which is a real problem, and the value of the dollar and all of those things we have heard about time and time again, we do have a short-term problem in farm country, and you are going to be spending billions and billions.

Nickels and dimes will be flowing out this spring during the spring planting crisis. We will have son of PIK. We will have son of emergency credit. We will have a lot of sons, some of which I don't want to mention.

It doesn't stand for Senate office building.

At that particular time, we are going to spend a lot of money that I really think we could do now on an orderly basis to provide some help.

Now, this program started off as a means to get a budget, such as it is, with several Senators over there on the other side, as well as a lot of blood pressure by my chairman, who wants to mandate this kind of thing.

We did it on our side with his leadership and with a lot of his helping in a very bipartisan effort.

So, to get one vote on the budget, it is BICEP in terms of a bonus thing; it is a bonus, in turn, for a crop export program, yet we have got a short-term trade policy tool instead.

BICEP is a lot like the illegitimate youngster at a family picnic. We don't send him to the church or the 4-H program or to school. We have him there in the park, and we all sort of hide around him, and if somebody else misbehaves, you say, "Mikey, you know what you are." You go over there and bother them with a bunch of potato salad.

I just don't think that is going to feed the bulldog in terms of what we need in farm country.

We hope we can latch onto this handle to make it more effective to get some price relief.

Mr. Evans has gone over that. The chairman has gone over that. My colleague, Mr. Gunderson, and I have had many talks about that privately about our frustrations, yet you want to talk about long-term policy.

There won't be anybody left out there in farm country to have a long-term policy to govern.

That is my frustration. I apologize for making a stump speech in terms of frustration, but if we can get this off the dime and make a little progress here on top of Egypt, who knows?

You could get a 25-cent increase in price in farm country. And that 12-cent increase, do you know what it did? It allowed several farmers to get past this crunch.

A whole bunch of others are waiting desperately for that kind of help—just another dime. Just a dime can make that kind of difference.

We ought to take it. We ought to take it right now.

I thank the chairman.

I apologize for my speechmaking.

Mr. **Bedell**. Mr. Evans.

Mr. **Evans** of Iowa. Thank you, Mr. Chairman.

To move to a somewhat different subject, I think, Mr. Amstutz, that you sort of mentioned in passing that there probably were about eight more initiatives that were under consideration in the Department, and I certainly commend you on that, and I will say again, in view of your remarks earlier about market domination and the importance of market domination in determining where you go with these initiatives, that I hope that among that eight are a number of the countries which the French have totally dominated for years, particularly in French west Africa.

It has been a monopoly market. Nobody has bothered them at all for years. We could be an effective tool, and I say again, for the life of me, I can't understand why it takes a lot of debate and argument and explorations with each of those countries to determine whether they are interested before you are willing to announce an initiative and let some of the traders go to work.

But, I suspect you are seriously considering that, and I would certainly encourage you in that endeavor in spite of the small size of the market.

I would like to move to a somewhat different subject that was mentioned briefly earlier. The subject then was if the cargo preference matter is settled, will we go back into the export credit game that we postponed?

I applaud your answer in that regard. I would like to explore just a bit further as far as BICEP is concerned. As I understand it, in order to stay clear of the cargo preference thicket, we have been extremely careful on the lowest acceptable price on these transactions to keep from triggering action under cargo preference in the BICEP Program.

This has been quite a handicap, I think, in some instances of traders trying to make a deal that would stick.

If cargo preference is settled, do you think the Department would allow a somewhat larger margin on the downside in approving deals?

Mr. **Amstutz**. There is no question, Mr. Evans, that our emphasis on the commerciality is to protect ourselves against any kind of cargo preference suit. When that issue is finally behind us, and it is clear that these programs would not be subject to cargo preference, that will indeed make it easier for us to operate.

In the meantime, as I have said to my staff—and let me be very candid here—there is nothing we can do about someone who might bring an action against us in this regard.

There is plenty we can do in managing the program so that any judge hearing this action should conclude that there was no reason for any kind of a temporary restraining order.

Mr. EVANS of Iowa. If I may move to another subject, Mr. Bereuter briefly mentioned the possibilities that exist in value-added products, and this is, of course, of great interest to me, and it would seem to me that one of the value-added areas in which the French have exercised great skill in using subsidies has to do with meat and poultry.

And I am wondering if the Department has given any thought to entering into some initiatives in this area in some of these parts of the world?

Mr. AMSTUTZ. Yes; we surely have. Those are on that list.

Mr. EVANS of Iowa. Would that require a specific announcement of an initiative before the Department could consider any proposals?

Mr. AMSTUTZ. Yes.

Mr. EVANS of Iowa. Can you give us any indication as to why we have not announced such initiatives?

Is it a matter of lack of interest in the other parties or just a matter of getting to this in the process of gradually expanding the program?

Is there some philosophical obstacle, the special trade representative, the post, this—or the State Department, or you just haven't figured out how to do it?

What comments do you have on this?

Mr. AMSTUTZ. These are somewhat complicated. It is not because of a lack of interest, because these kind of things were addressed as early as the regular grain issues.

There have been instances where we have difficulty stirring some of these into that one criteria that we have spent so much time discussing today the possession of nonsubsidizing suppliers vis-a-vis subsidizing suppliers.

But I am confident over the coming weeks and months you will see some of these.

Mr. EVANS of Iowa. May I have some more time, Mr. Chairman?

To pursue that a little further, I have had at least two traders come to me with suggestions of types of deals on poultry, and if I may briefly outline one of them to you.

To go into an appropriate country in the Mediterranean rim where the French have completely dominated the poultry business in recent years and say to a major broker there, "We would like to sell you 100,000 tons of poultry parts for 10 cents a pound less than the French are charging you these days," and to get a conditional contract on that proposal and come back to the United States and put together the appropriate growers, processors, and sit down and figure out what the price of corn or wheat would have to be in order to meet that price, and then come to the Department of Agriculture and say, "Hey, will you make available to us a sufficient quantity of feed grain, soybean meal,"—whatever it might be that they decide is the most appropriate mix—"so that we can meet this price and take that market away from the French?"

It seems that, in view of the trader interest in this, that that is worth pursuing.

Would you care to comment on what is good or bad about proposals of that kind in the view of the Department?

Mr. AMSTUTZ. We welcome proposals from the trading part of the industry, and a good percentage of those that are in the mill for review come from them.

A good percentage of those that have already been announced come from them.

Mr. EVANS of Iowa. But there is no initiative at the present time.

What do they do? They don't know where to focus. It takes a lot of work and a lot of money to put together a proposed deal, and without some indication that the Department has some interest at least in doing poultry in a given country, it is very hard to get off the dime.

It is, again, the chicken and egg proposition, if you will.

Pardon the pun.

Mr. AMSTUTZ. We have said to them, incidentally—and as we discuss this, whatever the subject, with the private sector, we have said to them for reasons of competitiveness we will not do any of these after the fact.

In other words, the subsidizing has to be on business that is done after the initiative is announced, not before.

Mr. EVANS of Iowa. I think that is a very ponderous process, and I am sure you have your reasons about anything you can do to streamline that. I think there are lots of possibilities out there people would like to work on if they just thought they had a license to go and make a deal or to attempt to.

I yield back the balance of my time.

Mr. BEDELL. Mr. Volkmer.

Mr. VOLKMER. Ms. Early, you mentioned the next round of talks in Tokyo.

Do you anticipate agriculture will be on the agenda there?

Ms. EARLY. Yes; not in Tokyo, though. There is no venue yet where the next round will take place.

Mr. VOLKMER. One thing that concerns me.

I like to see how a member of the Trade Representatives Office, how you all view what is occurring, especially in the EEC.

Do you really believe it is possible you could change the philosophies of the Government there to subsidize their farmers and, as a result, increase production beyond their capacities, and therefore have to sell it?

Do you think you are going to be able to persuade them in Germany, France, Denmark, other places, they are going to have to cut back on production, tell their farmers to make less money?

Do you think that is possible?

Ms. EARLY. Well, I can't answer with respect to production, of course, but with respect to export subsidies, I think that when it begins to cost them plenty that they will begin to reassess the policies that they currently have in place which are encouraging the production, which then, of course, is exported with export subsidies.

We may not be too far away from that.

If the value of the dollar comes down, if we get our prices down in world markets, the EEC will really begin to feel the cost, and I think that that will need to take place before the EEC makes any real fundamental changes in their policies.

What we are doing at the moment is that we have initiated a GATT action against the European Community on wheat.

We have stated that we would be taking their wheat export subsidies to the GATT dispute settlement process, and they, likewise, have said that they intend to challenge the BICEP Program in the GATT, and we welcome this because we think there is a need for greater clarification of the existing rules.

We feel that there are rules, and that they need to be clarified, and that perhaps the GATT process is the best way to do that.

We welcome the fact that the European Community believes that there are rules on export subsidies too, because they feel that we have violated them.

Mr. **Volkmer**. What about procedures whereby countries buy grains or other agricultural products through their boards and then put duties or levies on them to increase the price, their domestic price, before selling them for resale in their country?

How do you feel about those things?

Ms. **Early**. Would you give me an example?

Are you talking about a marketing board, for instance, in Australia, Canada, or something like that?

Mr. **Volkmer**. Or France or any other place.

They have boards whereby, you know, all the import is done through that board, and the sale of those things go back out through the board to their domestic users at a higher price than what they purchased it at.

Ms. **Early**. How do I feel about it?

Mr. **Volkmer**. Do you think we ought to change that?

Ms. **Early**. Well, to the extent that they are not reflecting the true marketprice, "Yes." I think that is a distortion of trade and demand within that country.

Mr. **Volkmer**. It is protectionist measures. They are protecting their own producers.

Ms. **Early**. Yes; that is true. However, if they are doing it through tariffs, tariffs in the GATT are legal. They are legal trade barriers. Now I don't know exactly what—are you referring to the variable levy for instance?

Mr. **Volkmer**. No; as I understood it some of them are actually increasing the price from the sale that they make to their domestic users and then they use that money to subsidize their producers.

Ms. **Early**. We would have to have more information about it. We would certainly look into it. It could well be a trade barrier.

Mr. **Volkmer**. Thank you, Mr. Chairman.

Mr. **Bedell**. Mr. Gunderson.

Mr. **Gunderson**. Thank you, Mr. Chairman.

I apologize to both of you for not being here earlier for your comments. I would like to ask a couple of questions and if they have been answered earlier in some way please just correct me and I will check the record on them.

The President has recently charged the European Community with unfairly subsizing wheat in order to gain advantage in the world marketplace. Can you give us the specifics of that charge in terms of how they are unfairly subsidizing and likewise the status of the case? Whichever one of you would like.

Mr. **Amstutz**. Under the terms of the GATT, subsidizing exports per se is not against the rules, subsidizing of primary products. Subsidizing that results in the subsidizer getting a larger than is reasonable share of the market is against the rules and it is on these kind of grounds that we bring the action.

I would personally have wished that subsidizing of exports was not included in the GATT rules but that happened years ago and it is. So, just because a country or group of countries subsidizes exports is not grounds on which to bring an action. You have to show that that process has taken an inordinate share of markets.

Mr. **Gunderson**. What is the status?

Mr. **Amstutz**. That has just begun. The papers are still being prepared. U.S. Trade Representative prepares them in conjunction with USDA and then the process unfolds.

Mr. **Gunderson**. Can you give us a projected time for the case to evolve?

Ms. **Early**. No; I am afraid we don't have that just yet. We are still putting together the data and everything else for it right now.

Mr. **Gunderson**. You have not even filed the case.

Ms. **Early**. No, not yet.

Mr. **Gunderson**. When do you expect to do that?

Ms. **Early**. Soon.

Mr. **Gunderson**. What is soon?

Ms. **Early**. As soon as we get all the data together.

Mr. **Gunderson**. This year?

Ms. **Early**. Of course.

Mr. **Amstutz**. Yes; we would hope—the reason it is impossible to be precise on timing is that that is one of the pitfalls of the GATT, as all you gentlemen know. But we would hope this is far down the road—by middle to last, third quarter of next year, toward resolution.

Mr. **Gunderson**. Secretary Amstutz, you prompted the second question which bore your statement, I wish that subsidies were not allowed under GATT but they are allowed for export purposes. Who is most involved, who are the major users of the subsidy, which countries?

Mr. **Amstutz**. In agriculture, the European Community, clearly.

Mr. **Gunderson**. Mainly wheat and feed grains?

Mr. **Amstutz**. Yes; and also in sugar, beef. In recent years the communities subsidy policies on beef have grown dramatically.

Mr. **Gunderson**. Thank you.

Mr. **Bedell**. Thank you, Mr. Gunderson.

Mr. Amstutz, you indicated that you had gone back to this council for a second opinion prior to the time of the Soviet Union—why did you do that?

Mr. **Amstutz**. The Secretary felt that this subject is of such importance that periodically he should bring it before his fellow cabinet officers and review the criteria.

Mr. **Bedell**. Did it have to do specifically with whether or not this should be extended to the Soviet Union?

Mr. **Amstutz**. Well, certainly the selection of the timing for going back at that particular time had some bearing on the forthcoming consultations; yes. But that was not the only subject talked about. All the criteria were reviewed.

Mr. **Bedell**. Who comprises that council?

Mr. **Amstutz**. It is the Economic Policy Council.

Mr. **Bedell**. Consists of people from where?

Mr. **Amstutz**. It is chaired by the Secretary of the Treasury and it is comprised of all of the so-called commission agencies of the Government, that is, Agriculture, Commerce, Treasury, of course, U.S. Trade Representative, State, the CEA, and OMB.

Mr. **Bedell**. Why would State be a part of that?

Mr. **Amstutz**. They are considered one of the economic agencies of our Government.

Mr. **Bedell**. Would foreign policy consideration be one of the contributions they would have?

Mr. **Amstutz**. In selecting the criteria?

Mr. **Bedell**. Yes.

Mr. **Amstutz**. Sure.

Mr. **Bedell**. In the loss of business from the Soviet Union we have lost 1 million metric tons. Is there any indication whether we are going to lose more or what that is going to be?

Mr. **Amstutz**. I don't know, Mr. Chairman. My hope is we won't lose any. The third year of our agreement is only about 1 month old and so far there have been sales to the Soviet Union totaling over 3 million tons. Most of it is corn. There is some wheat, not a lot. But my hope is that they will indeed fulfill the agreement.

Mr. **Bedell**. We have lost 1 million metric tons of wheat, have we not, by now?

Mr. **Amstutz**. From the second year of the agreement, that is right.

Mr. **Bedell**. I would like to read the law to you on agriculture embargo protection, section 1204(a), "making payments available to such producers, as further established by establishing the loan rate at 100 per centum of the parity price of such commodity."

It would appear to me if that 1 million metric tons is roughly 3 percent at this time. It appears that exceeds 3 percent and it would seem to me that there could be a question as to whether or not such action, since foreign policy was considered, violated this provision and we have got to go to 100 percent of the loan rate of that product, I presume. Would you agree with that or disagree?

Mr. **Amstutz**. Oh, no, Mr. Chairman.

Mr. **Bedell**. I am surprised. I thought sure you would agree with that.

Mr. **Amstutz**. In no way, shape, or form have we done anything other than to encourage the Soviet Union to buy in this country.

Mr. **Bedell**. Baloney. Baloney. They have told you if you give them the same thing you give everybody else they would buy it. You testified to that.

We only had to come down roughly you said by $20 a ton in order to do it. We have given this to other countries and said we are not going to give it to you. I don't think you can convince anybody that you are doing everything to encourage them to buy if that is what you are doing, Mr. Amstutz.

You just can't do that. Nobody is going—we ask which one of us are crazy, they can decide that very clearly if somebody were to testify we were doing everything we can to try to sell to the Soviet Union, I don't know when we are giving a lower price to other people and telling them they cannot get it and when they say we would even pay you a little more than we would for other countries we say, no deal, we won't do it.

We have heard testimony it is for foreign policy reasons. It is right on the border of being over 3 percent. At least I think there is reason for some of us, I am one of those, to question whether or not it is a violation of this section of the law and if it is violation of this section of the law whether indeed it means that we are going to go to 100 percent of parity on the loan rate for wheat to our people.

I just think you ought to be aware of the fact that it seems to me it depends on what happens further in regard to those sales to the Soviet Union.

Mr. Amstutz. Mr. Chairman, I don't take back what I said previously on this and I certainly know that there is a difference in view between you and me on this issue.

Mr. Bedell. There sure is.

Mr. Amstutz. I don't think there is any misunderstanding on the part of the Soviet Union—between the administration and the Soviet Union—on this issue and I can just tell you that there is no question in my own mind as to how they think the agreement reads.

In response to a question by Mr. Roberts that I distinctly remember from our last—the last—my last appearance before your subcommittee, I acknowledged that the Soviet Union uses that as an excuse for not pushing that million tons and I think the operative word there is "excuse." I remind you also that I mentioned that at the time the long-term agreement was reached, the toughest part of our negotiation was the inclusion of wheat in the agreement.

They tried awfully hard to keep those quantities of wheat far lower than we are in that agreement and we refused to do that.

Mr. Bedell. You have listed three critera, one of which is sales must be directed at specific markets, particularly those where competitors subsidize their exports.

Clearly competitors subsidize exports to the Soviet Union and beyond. You have said sales must increase using agriculture exports above what would have occurred in the absence of program.

Clearly there would have been increased sales if this had gone through. Finally, sales must not increase budget outlays without what you would approve without the program. I must clear up that last point. That point is $20 a ton is roughly 50 cents a bushel for wheat.

I presume there would be no question that it costs us more than 50 cents per bushel to reduce production of wheat in our program, which is less than 50 cents a bushel, therefore is less than $30 per acre. I presume there is no question at all that it costs us more than $30 an acre to reduce our production of wheat if we cannot sell it so that I guess the problem that some of us have is clearly this sale met all three of those requirements as were outlined by you when you testified previously and under those circumstances as has been indicated, I think some of us will pursue whatever methods are necessary in order to see that we do abide by the criteria that are listed.

Do you have any other questions, Mr. Roberts?

Mr. ROBERTS. Just a final observation, Mr. Chairman.

I want to thank the Under Secretary for coming back and appearing before us. I want to say again I don't think the program is being mismanaged, I think you are doing an excellent job under difficult circumstances.

You are getting clearly two signals, one from the Hill and one in terms of policy directives from the people that you work for, and you are doing the best job that you possibly can.

I want to thank you on behalf of my wheat producers for the 12-cent increase that may or may not actually accrue to the BICEP Program, but I perceive at least with whatever blend we have in commercial sales with surplus stocks to Egypt that that at least helped to diminish the free stocks. We need all the help we can get in that department.

Mr. Chairman, I would point out that from a private commodity report, which shall remain nameless, that the son of flexible parity is being considered in the Senate as one of the other revisions of the farm bill that we have already dealt with and a prediction is made that the commodity groups may go ahead and buy that proposal and get the farm bill to conference if—and I am quoting here: "The plan was modified further to include greater export assistance for those commodities." However, analysts feel that the export assistance could take the form of across the board export subsidy. However, several Senators and the administration may oppose this on the basis of foreign policy implications. There is the rub.

We are right back to the initial question asked by yourself and asked by Mr. Evans. That is why we have these hearings. I think they have been very helpful, I commend you, sir, for shedding some light on this difficult subject.

I thank you again, Mr. Secretary.

Mr. AMSTUTZ. Thank you.

Mr. BEDELL. Could you tell us the name of the eight countries that are under consideration?

Mr. AMSTUTZ. Mr. Chairman, I would be happy to tell you privately but you know we have said before that we think it is a mistake for market distortion reasons to be public about these, and incidentally, whenever I have had a meeting on this subject with farmers, either individual farmers or representatives of farmer groups, or individual members of the trade or trade groups, they have agreed with our policy of not divulging this information.

Mr. BEDELL. That is understandable, and I do want to thank you for coming back to meet with us, and I would again remind everyone that I am sorry for the misunderstanding previously that it was very clear to this subcommittee that you had a previous engagement and would be limited as to the time you could spend.

We also want to thank Ms. Early for appearing as well.

Mr. AMSTUTZ. Thank you, Mr. Chairman.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned, subject to the call of the Chair.]

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